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**“Edupreneurs”—  
A Study on For-Profit Education in Mainland China**

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## LIST OF ABBREVIATIONS

AET:	Adult education and training
BIBB:	Bundesinstitute für Berufsbildung—the Federal Institute for Vocational Training
BMBF:	Bundesministerium für Bildung und Forschung-- Federal Ministry of Education and Research.
CCP:	Chinese Communist Party
CPPCC:	Chinese People's Political Consultative Conference
CET:	College English Test (in China)
DAAD:	Deutscher Akademischer Austauschdienst
ETS:	Educational Testing Service
EU:	European Union
FDI:	Foreign Direct Investment
GATT:	General Agreement on Tariffs and Trade
GATS:	General Agreement on Trade in Services
GDP:	Gross Domestic Product
GMAT:	Graduate Management Admission Test
GRE:	Graduate Record Examination
HRK:	Hochschul-Rektoren-Konferenz
ICT:	Information Communication Technology
IELTS:	International English Language Testing System
LSAT:	Law School admission Test
NOEF:	New Oriental Education & Technology Group Inc.
NPC:	National People's Congress
OECD:	Organization for Economic Co-operation and Development
PAT:	Principal-Agent Theory
PISA:	Program for International Student assessment
PPP:	Public-Private Partnership

PRC: People's Republic of China  
TEI: Tertiary Education and Training Institution  
TOEFL: Test of English as a Foreign Language  
TEM: Test for English Majors in China  
UK: United Kingdom  
US: United States of America  
UN: United Nation  
UNESCO: United Nations Educational, Scientific and Cultural Organization  
WB: World Bank  
WEI: World Education Indicators program  
WTO: World Trade Organization



## ABSTRACT

The for-profit sector is an active, viable and financially successful piece of the landscape of education and assumed to continue growing (Breneman, 2005). “Edupreneurs” or private, for-profit education companies provide desirable and affordable educational products and services for students, or better, customers.

At the tertiary level, for-profit higher education is defined “private institution[s] in which the individual(s) or agency in control receives compensation other than wages, rent, or other expenses for the assumption of risk” (NCES, 2003). In other words, public higher education and private not-for-profit colleges and universities on the one hand are not entitled to benefit private interests and net earnings cannot be distributed to owners or shareholders (IRS, 2003; Quoted after Kinser, K. & Levy, D.C., 2005, p.6). On the other hand, for-profit institutions set their goal to make a profit for their owners or shareholders (Kinser, 2005). According to John Sperling (1997), For-profit universities offer several advantages over non-profit institutions, among which are the for-profit’s accountability for educational effectiveness, operational efficiency, cost benefits, and the time it takes them to respond to changes in the education needs. Fueled by the trends of internationalization, globalization, commercialization, and privatization in the education sector, for-profit education expands worldwide.

This research intends to feature the Chinese echoes to the trend of For-profit education. The purpose of the study is three-fold. To begin with, the author aims to portray the scope and size of Chinese for-profit education sector, and make a tentative classification for “Edupreneurs” operating in Chinese education and training market. Next, the author aims to show the panorama of Chinese for-profit education, looking into the *yesterday* (causes of the emergence), *today* (strengths and weaknesses of the operation), and

*tomorrow* (conceptualization of the optimal “Edupreneur”) of Chinese “Edupreneurs”. Last but not least, the researcher proposes to promote educational cooperation between Germany and China. Germany is blessed with excellent educational resources and services, and among one of the most popular destinations for international student mobility. Nevertheless, Germany has been avoiding the private surge, and thus a for-profit surge so far, even when faced with severe budget cuts and funding problems. Is this a voluntary or reluctant rejection, under the current educational system lacking self-management and autonomy? A quest for combining educational provision and consumption between Germany and China will then be incorporated in this study.

Qualitative research methods are used to collect data. The primary source of data comes from semi-structured interviews with middle or senior administrators of selected for-profit educational companies. Other sources include direct observation made by the researcher during the periods of visiting the interviewees and companies; official documents (archival records, legislation, ministerial publications); internal documents; company fact book; company website; journalism (newspapers, periodicals), and others.

Key words:

for-profit education, “Edupreneurs”, privatization, internationalization, globalization, life-long learning, new institutionalism

# CHAPTER -1

## INTRODUCTION

### 1.1 The rise of For-Profit Education Worldwide

The growth of for-profit educational providers has been a major trend in the educational landscape (Lechuga, 2006). As the neoliberal discourse of marketization, privatization, and consumerism spreads throughout the educational environment, for-profit education is on the rise in the increasingly competitive education market. “Edupreneurs” or for-profit education companies, provide desirable and affordable educational products and services for students. Although “the sector difference among institutions—for-profit in contrast to public or private nonprofit—has existed since the founding of our country”, only recently, with the demand for education increasing and funding for public higher education decreasing, “have for-profit institutions increased rapidly in popularity”(Tierney & Hentschke, 2007, p.3).

The United States of America, among others, leads this upward surge, as Shareowner (2004) says that revenue and earnings at a number of for-profit institutions "have grown on average by more than 40% each year-often with earnings growth exceeding revenue growth" from 1999 to 2004.

Take a look at the postsecondary education level. These for-profit colleges and universities provide the spectrum of diploma and degree programs including associates, bachelor's, master's and doctoral degrees in a variety of subject areas, mainly involving career-related majors such as business, healthcare, information technology, communication, fashion, media, trades, etc. According to Howard-Vital (2006), for-profit institutions offer job-oriented degree programs leading to well-paid careers, which exactly suit students' specific needs. These offerings cover "career-focused degrees such as

associate of arts in acquisition and contract management and associate of applied science in multimedia and web design" instead of degrees in history or literature. The emergence and growth of for-profit colleges and universities in the U.S can be attributed to a series of historical forces, involving "increased private as well as public benefits of additional postsecondary education; emergent governmental devolution and privatization of its historical functions; and a globalizing knowledge economy with requirements for a highly skilled work force" (Tierney & Hentschke, 2007, p.2). And according to John Sperling (1997), the founder of the University of Phoenix, for-profit universities offer several advantages over non-profit institutions, among which are the for-profit's accountability for educational effectiveness, operational efficiency, cost benefits, and their responsiveness to changes in education needs. Fueled by internationalization, globalization, commercialization, and privatization in the education sector, for-profit education expands worldwide.

In addition, for-profit entities are invited to participate in school reform at elementary and secondary level. Under the United States federal law, No Child Left Behind (NCLB for short), states are required to "restructure" any school that fails for six years to make Adequate Yearly Progress (AYP for short) toward full proficiency by the year 2014. The law's restructuring options include turning over the school's management to a private for-profit or nonprofit entity. The Philadelphia School reform Commission (SRC for short), on behalf of the School District of Philadelphia contracted with for-profit entities to manage Philadelphia's 30 lowest-performing elementary and middle schools and with non-profit entities to manage 16 additional schools. It is difficult to draw conclusions regarding the effectiveness of for-profit versus nonprofits, as revealed by the following conclusion of researchers Peterson and Chingos: It turns out that for-profits outperform district schools in math but not in reading, that for-profits perform better than nonprofits in both subjects, and that nonprofits fall short of district schools in both subjects (Peterson & Chingos, 2009).

Educational services provided by for-profits are not limited to the US. Proprietary training has also long been established in Australia (Lundberg 1994) and Japan (Harnisch, 1994). There are for-profits operating in Singapore, Malaysia, Mexico, and Cyprus, among others. In addition, Tooley (2007) argues that for-profit education is beneficial to the poor in India, for schools with profit motives better serve the poor than the government alternative. Accordingly, the for-profit sector, as an active, viable and financially successful piece of the education landscape assumed to continue growing (Breneman, 2005).

Scholars have turned their attention to researching various facets of for-profit in the past decades. This attention includes research in the following areas: for-profit providers of degrees and training in higher education, the potential of for-profit expansion, chiefly focusing on pricing and subsidies, technology, barriers to entry and regulation (Pusser, 2003, p.2).

However, what is the situation with the development of for-profit education in Germany? According to Kinser, Kevin and Levy, D.C. (2005), Germany has been an exceptional case of avoiding the for-profit surge so far. Why so? And what is the situation with the development of for-profit education in China? How do Chinese for-profit institutions compare and contrast with traditional institutions? Almost no domestic or international study ever attempts to answer these questions. It's certain that the for-profit education industry is poorly defined and understudied in China, though market dynamics and global demand greatly promotes transnational, private and for-profit provision there. Though considerable attention has been devoted to for-profit education, research on specific areas of for-profit education can further contribute to our understanding of the rapidly growing education environment.

## 1.2 Definition of Frequently used Terms in this Study

### For-Profit Education

Terms like “for-profit education,” “for-profit institutions,” “for-profit higher education,” “for-profit sector,” and “for-profit schools” will be frequently used in this paper; hence a definition of for-profit is required to clarify its scope and size. Described as “Slippery and murky” (Kinser & Levy, 2005, p.6), the delimitation between for-profits and nonprofits often involves a “name game” (Frumkin, 2002, p.10-16), for the sectors often overlap. The profound discrepancy lies in that only for-profit institutions, according to general legal delineation, may distribute profits to owners in contrast to private nonprofit colleges and universities. This depends largely on the U.S. definition of for-profit. The profit status of any U.S. organization is labeled by the tax code. Not-for-profit educational institutions with the tax code 501(c) (3) are not allowed to benefit private interests; their assets must be permanently dedicated to charitable purposes and net earnings cannot be distributed to owners or shareholders (IRS, 2003; Quoted after Kinser, K. & Levy, D.C., 2005, p.6). Alternatively, for-profit institutions embrace and aim to make a profit for their owners or shareholders.

### For-profit Institution

A for-profit institution, also termed as proprietary institution, is primarily defined as “a private institution in which the individual(s) or agency in control receives compensation other than wages, rent, or other expenses for the assumption of risk” (NCES, 2008 b, p.673).

## For-profit higher education

The official definition of for-profit higher education as used by the U.S. Department of Education is as follows: A private for-profit educational institution that is otherwise eligible for Title IV aid offers at least:

- a 15-week undergraduate program (of 600 clock hours, 16 semester or trimester hours, or 24 quarter hours); or
- a 10-week program (of 300 clock hours, 8 semester or trimester hours, or 12 quarter hours) that is also a graduate/professional program or that admits only students with an associate degree or equivalent; or
- A 10-week undergraduate program (of 300-599 clock hours) that admits at least some students without an associate degree or equivalent and meets some specific qualitative standards (such a program is eligible for FFEL and Direct Loan participation only)<sup>1</sup>

On all accounts, the key to understanding the delimitation between for-profit and non-profit higher education is not whether or not the institution makes money or generates profit, but rather “what they are able to do with that money.” Not-for-profit institutions can “only use money left over after expenses are paid to develop the organization and continue its charitable or other nonprofit objectives,” while for-profit educational institutions “can essentially do whatever they want with it, including offering additional reward to their owners” (Kinser & Levy, 2005, p.8).

Similarly, for-profit schools refer to educational institutions run by private, profit-seeking companies or organizations in the K-12 (from Kindergarten to the 12<sup>th</sup> grade) area. Sometimes, for-profit schools or for-profits are also used as a shortened form for for-profits institutions.

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<sup>1</sup> Available online at: [http://www.ed.gov/offices/OSFAP/fsacoach/glossary/prop\\_inst\\_of\\_highed.html](http://www.ed.gov/offices/OSFAP/fsacoach/glossary/prop_inst_of_highed.html) (accessed on Feb.2, 2009).

## For-profit Sector

The for-profit sector is now an active, viable, and financially successful piece of the landscape of education and is assumed to continue growing (Breneman, 2005). However, decades ago, for-profit schools found little recognition. It was not until the passage of PL 92-318 in 1972 that for-profits gained their legal basis. The Higher Education Amendment of this law incorporated for-profit schools as part of the higher education sector (Fournet, 1984, p.37-40). Operating under constraints, most proprietary schools were referred to as trade schools at that time. Two-thirds offered shorter programs that were under one year; one-third of programs were less than six months duration and about one quarter were shorter than three months (Bailey, Badway, & Gumpert, 2001). Then in the 1990s, publicly traded, for profit higher education colleges and universities were created. DeVry University, listed in 1991, was the first, followed by the founding of the University of Phoenix in 1994. The for-profit sector has been booming ever since.

### “Edupreneurs”

Influenced by forces like commercialization and privatization, for-profit education has been growing dramatically worldwide and the for-profit sector has been expanding greatly over the border of postsecondary schooling. The scope and size of the for-profit sector varies from country to country, depending chiefly on the policy-making and regulation of local government. For example, Poland allows private firms providing training, yet forbids profit-making among private universities. That’s why the for-profit sector can avoid government restrictions by being identified as educational companies providing a combination of high-quality and affordable educational products.



This terming allows the industry to take off in many countries which impose restrictions on the education market, these educational companies are now coined as “Edupreneurs” or Education Entrepreneurs, which refers to companies that “develop innovative products and services to fill the vacuum left by government-run schools” (Lips, 2000, p.2). “Edupreneurs” employ a wide range of business strategies, depending on the nature of their products and the market segment they have chosen to serve. Enterprises like the Apollo Group and DeVry are gurus in the post-secondary education market. Kaplan’s business is preparing high school students for standardized tests. Another Edupreneur, the Edison Schools, is the major player in the K-12 arena. In all, an “Edupreneur” is a company that is “thinking outside the box in its academic, operational and marketing strategies and outside traditional geographic boundaries” (Johnson, 2003, p.16).

## EMO

As classified by Wang, three patterns of for-profits are operating in the K-12 arena: for-profit private schools, for-profit charter schools, and for-profit educational management organizations or EMOs for short (Wang, 2002, p.70), in which EMOs make up the biggest proportion.

The term EMO has so far been limited to include only for-profit firms that provide “whole-school operation” services to public school agencies (Guilbert, C., Hentschke, et.al., 2002, p.1). They work with school districts or charter schools, utilizing public funds to operate public schools. Edison Schools and Advantage Schools, two best-known EMOs as cases in point, have sought to manage charter schools or public schools directly under contract with school districts, rather than merely provide products and services to schools, such as supplies, textbooks, transportation, and food services, as they’ve always been doing (Levin, 2001, p.4). EMOs are market-oriented, unlike the

mission-orientation of charter schools and range in size from the largest, Edison Schools, operating over 130 schools, to firms that operate a single school. Other large EMOs that center exclusively on public school operation include Mosaica Education,<sup>2</sup> National Heritage Academies<sup>3</sup> (formerly Educational Development Corporation), and Beacon Education Management.<sup>4</sup> Some EMOs, such as Nobel Learning Communities,<sup>5</sup> own and operate private schools as well (Guilbert, C., Hentschke, et.al., 2002, p.1).

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<sup>2</sup> [www.mosaicaeducation.com](http://www.mosaicaeducation.com)

<sup>3</sup> [www.heritageacademies.com](http://www.heritageacademies.com)

<sup>4</sup> [www.beaconedu.com](http://www.beaconedu.com)

<sup>5</sup> [www.nobellearning.com](http://www.nobellearning.com)

### 1.3 Research Objective and Research Question

This research intends to feature the Chinese echoes to the trend of for-profit education. The purpose of the study is three-fold.

1. To begin with, the author aims to portray the scope and size of the Chinese for-profit education sector, and make a tentative classification for “Edupreneurs” operating in Chinese education and training market.
2. Next, the author aims to show the panorama of Chinese for-profit education in terms of its *yesterday* (causes of the emergence), *today* (strengths and weaknesses of the operation), and *tomorrow* (conceptualization of the optimal “Edupreneur”) of Chinese “Edupreneurs”, and to explain it from theory.
3. Lastly, this paper proposes to promote educational cooperation between Germany and China.

The fact that the United States, the United Kingdom, Germany, and France receive more than 50% of all foreign students worldwide (OECD, 2006, p.283), suggests that Germany is among the most popular destinations for international student mobility, thanks to its excellent educational resources and services. Nevertheless, Germany has been avoiding the private surge, even when faced with severe budget cuts and funding problems. A quest for combining educational provision and consumption between Germany and China will then be incorporated in this study.

Should the private sector profit from education? Is education a good, a commodity, or a business? This study addresses the challenges and controversies arisen from the explosion of for-profit education and explores the impact of underlying factors such as the privatization of the education arena and the trend of life-long learning. For further analysis, New Institutionalism as rationale is applied in order to acquire a thorough understanding of the

phenomenon.

Accordingly, main research questions that are addressed in this research are as follows:

RQ1 Is it possible to classify “Edupreneurs” operating in the Chinese education and training market?

RQ2 What has been influencing the operation of "Edupreneurs" in China?

RQ3 How would New Institutionalism accounts for the for-profit phenomenon?

RQ4 Is it possible to cooperate in providing high-quality and affordable for-profit education products and services between China and Germany?

## 1.4 Hypotheses

The first hypothesis of this study assumes that China has responded to the for-profit surge actively, resulting in various types of “Edupreneurs” operating in the Chinese education and training market.

The second hypothesis involves providing an analysis and explanation of the for-profit sector in China. It is assumed that *New Institutionalism* has impacts on Chinese for-profits' mission statements, curriculum, students, faculty and the like area.

The third hypothesis assumes that it is possible to match demand and need from both Chinese and German sides and offer high-quality and affordable for-profit education products and service through cooperation. This hypothesis seeks to extend the research on pattern and channel as constructs into operationalised cooperation plans.

## 1.5 Method

Quantitative methods are “procedures and techniques used to analyze data numerically” (Antonius, 2003, p.2) and “explaining phenomena by collecting numerical data that are analyzed using mathematically based methods” (Muijs, 2004, p.1). In other words, they involve numerically measuring the degree to which some feature is present. Qualitative methods can be described as “procedures for counting to one” (Sherman, E. & Reid, W. J., 1994, p.496), which identify the presence or absence of something. Accordingly, quantitative research inquires into an identified problem based on testing a theory, measured and analyzed using statistical techniques, while qualitative research produces descriptive data based on spoken or written words, pictures, paragraphs and observable behavior.

This research will study Chinese for-profit institutions in order to develop a better and deeper understanding of the ongoing trend of the for-profit sector in China. It needs to produce descriptive data based on spoken or written words, pictures, paragraphs and observable behavior and will therefore be qualitative in nature. The primary source of data comes from structured interviews with middle or senior administrators of selected educational companies. Other sources include direct observations made by the researcher during visiting the interviewees and companies; official documents (archival records, legislation, ministerial publications); internal documents; company fact books; company websites; journalism (newspapers, periodicals), and others. In all, multiple data acquisition methods are used to allow triangulation.

## CHAPTER -2

### PANORAMA OF FOR-PROFIT EDUCATION

The landscape of the vibrant education market is changing. “Edupreneurs,” or education companies as defined before, are entering the global education market. They are private, for-profit enterprises providing desirable and affordable educational products and services for students, or better, customers. These products and services are crossing borders, across age groups, and via new media.

The term "for-profit education" is new to the educational discourse. Traditionally, the structure of national education systems around the globe is described either by level or by ownership.

If defined by level, there are generally three levels: elementary<sup>6</sup>, secondary<sup>7</sup> and postsecondary education. Each is with further distinctions<sup>8</sup>. In particular, postsecondary education is generally provided for students who already achieved a high school diploma or the equivalent, including academic, vocational, and continuing professional education programs. In other words,

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<sup>6</sup> Elementary school is a school classified as elementary by state and local practice and composed of any span of grades not above grade 8. A preschool or kindergarten school is included under this heading only if it is an integral part of an elementary school or a regularly established school system (NCES, 2008 b).

<sup>7</sup> Secondary school is a school comprising any span of grades beginning with the next grade following an elementary or middle school (usually 7, 8, or 9) and ending with or below 12. Both junior high schools and senior high schools are included (NCES, 2008 b).

<sup>8</sup> UNESCO designs a much comprehensive classification including 6 levels:

Level 0- Pre-primary education

Level 1- Primary education or First stage of basic education

Level 2- Lower secondary or Second stage of basic education

Level 3- Upper secondary education

Level 4- Post-secondary non-tertiary education

Level 5- First stage of tertiary education (not leading directly to an advanced research qualification)

Level 6- Second stage of tertiary education (leading to an advanced research qualification).

the common discourses of higher education, vocational education, adult education, and continuing education, though overlapping, all fall into this level.

A second distinction within an education system is based on ownership or control of institution, which refers to a classification of institutions by whether the institution is operated "by publicly elected or appointed officials and derives its primary support from public funds (public control) or by privately elected or appointed officials and derives its major source of funds from private sources (private control)" (NCES, 2008 b, p.656). It is thus commonly believed that there are two types of educational institutions: 1). public school or institution depends mainly on the operation of publicly elected or appointed officials and the support from public funds; 2) private school or institution controlled by an individual or an agency other than the government and usually supported by sources other than public fund.

The term "for-profit education" only comes about concerning the disposal of profits yielded in the educational entities. Profound discrepancy lies in that only for-profit institutions, according to general legal delineation, may distribute profits to owners in contrast to private non-profit and public entities. In addition, for-profit educational institutions, notwithstanding in the education sector, which is traditionally regarded as a public realm and a constant recipient of subsidies and grants, actually pay tax as any other type of businesses according to general legal delineation. In the United States of America, the profit status of any U.S. organization is labeled by the tax code. Not-for-profit educational institutions, 501(c) (3) as their tax code, are not allowed to benefit private interests, that is, their assets must be permanently dedicated to charitable purposes, and net earnings cannot be distributed to owners or shareholders (IRS, 2003, Quoted after Kinser, K. & Levy, D.C., 2005, p.6). On the other hand, for-profit institutions embrace and aim to make a profit for their owners or shareholders. It can be concluded that the United States of America is provide with "both not-for-profit and for-profit institution" within private sector (NECS, 2008b, p.664).

## 2.1 For-Profit Education in the U.S

According to Lee (1996), for-profit institutions have been offering vocational programs for those who seek quick preparation and transition to work since the 17<sup>th</sup> century together with other private not-for-profits. Besides, for-profits display various sector differences in contrast to public or private not-for-profit institutions. They were featured small, running operations independently, and called "matchbook schools", for their advertisement firstly appeared inside matchbook covers (Kirp, 2003, p.101). The duration of those programs was short: two-thirds less than one year and one-third shorter than six months (Bailey, Badway, & Gumpert, 2001, p.19). It was until the passage of PL 92-318 in 1972 that for-profits gained its legal basis. The Higher Education Amendment of this law incorporated for-profit schools as part of the higher education sector (Fournet, 1984).

The demand to prepare students for the rigors of the modern economy provides an "opportunity for the private sector" (Lip, 2000, p.2), and a new breed of for-profit schools, "less marginal and less disdained than its predecessors" emerges (Kirp, 2003, p.102). Together with the economic value of education increasing and yet the funding for public higher education decreasing, for-profit colleges and universities emerged in 1970s and "increased rapidly in popularity" (Tierney & Hentschke, 2007, p.3). Such for-profit colleges and universities run multi-campus operations and offer degree programs--ranging from the associate degree to the Ph.D. Level--as well as certification preparing courses like the Cisco or Microsoft engineer-certification exam in traditional classroom or online (Kirp, 2003).

How to tell this breed of for-profits from the non-profits? The key to the delimitation between for-profit and non-profit higher education is not whether or not they make money or generate profit, but by "what they are able to do with that money", because not-for-profit institutions can "only use money left



over after expenses are paid to develop the organization and continue its charitable or other nonprofit objectives”, while for-profit educational institutions “can essentially do whatever they want with it, including offering additional reward to their owners” (Kinser & Levy, 2005, p.8).

Then in the 1990s, large for-profit higher education colleges and universities went public. DeVry University, listed in 1991, was the first, followed by the founding of the University of Phoenix in 1994. For-profit stock boomed. According to Shareowner (2004), revenue and earnings at a number of for-profit organizations have grown on average by more than 40% each year—often with earnings growth exceeding revenue growth since the end of the last century.

Furthermore, educational entities with for-profit orientation march into the area of elementary and secondary education, contributing to the making of for-profit sector in education. In Philadelphia, for instance, for-profit entities are invited to participate the school reform at elementary and secondary level as a restructuring option in order to improve the school performance. They, also their private nonprofit counterparts, are given a contract with the School District of Philadelphia to manage 30 lowest-performing elementary and middle schools and with non-profit entities to manage 16 schools (Peterson & Chingos, 2009).

Unfortunately, study and statistics on for-profit education altogether is strikingly less than other fields of education anywhere in the world. The now attainable data shows that the for-profit education industry has already accounted for 10% of the \$ 780 billion education market early in 2000 (Symonds, 2000). A higher ratio is easily estimated, given the fact that for-profits outdevelop in the last decade while the \$780 billion education market has risen to a US\$972 billion industry by 2006 (NCES, 2008 a).

## 2.1.1 Market Segmentation of U.S. For-profit Education

“Edupreneurs” range in size and operate in different segments of the educational market.

As seen in table 2-1, the author compiled the leading for-profits players in the U.S. education market. The market of for-profit education in the U.S. can be divided into five parts: Schools, services, E-services, products, and corporate training. Each segment contains a combination of sub-segments, for example, the segment of school education includes childcare, K-12 schools, and post-secondary institutions; and the segment of services include sub-segments such as tutoring, testing, summer schools, teacher training, and so on.

Some "Edupreneurs" target one particular sub-segment, some cover more. Some "Edupreneurs" play significant roles in one sub-segment, some act as leading player in multiple fields. Companies like DeVry<sup>9</sup>, Career Education Corp. <sup>10</sup>, and etc. are strong in vocational educational services for high school graduates. DeVry also offers university degrees and even postgraduate training. And Edison Schools, Inc.<sup>11</sup>, has long been one the biggest players in the K-12 arena. Nevertheless, in the K-12 sector, private education is relatively less significant, enrolling only 11% pupils from pre-kindergarten through grade 12, and for-profit education in the K-12 segment is even less significant.

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<sup>9</sup> <http://www.devryinc.com/>

<sup>10</sup> <http://www.cci.edu/>

<sup>11</sup> <http://www.edisonschools.com/>

Table 2-1 Segment and Resources of U.S. Education Industry

<b>Segment</b>	<b>Sub-segment</b>	<b>Company name</b>	<b>Web address</b>
<b>Schools</b>	Childcare	KinderCare Learning Centers, Inc.	<a href="http://www.kindercare.com">www.kindercare.com</a>
		Bright Horizons Family Solutions, Inc.	<a href="http://www.brighthorizons.com">www.brighthorizons.com</a>
		La Petite Academy	<a href="http://www.lapetite.com">www.lapetite.com</a>
		Childtime Learning Centers	<a href="http://www.childtime.edu">www.childtime.edu</a>
		Children's World Learning Centers	<a href="http://www.childrensworld.com">www.childrensworld.com</a>
	K-12 Charter schools	Edison Schools	<a href="http://www.edisonschools.com">www.edisonschools.com</a>
		Chancellor Beacon Academies, Inc.	<a href="http://www.chancelloracademies.com">www.chancelloracademies.com</a>
		National Heritage Academies	<a href="http://www.heritageacademies.com">www.heritageacademies.com</a>
	Post-secondary	Apollo Group	<a href="http://www.apollogrp.com">www.apollogrp.com</a>
		DeVry	<a href="http://www.devry.com">www.devry.com</a>
		Strayer University	<a href="http://www.strayer.edu">www.strayer.edu</a>
		Career Education Corp.	<a href="http://www.careered.com">www.careered.com</a>
		Corinthian Colleges, Inc.	<a href="http://www.cci.edu">www.cci.edu</a>
		Education Management Corp.	<a href="http://www.edmc.com">www.edmc.com</a>

<b>Services</b>	Tutoring/ Testing	Kaplan, Inc.	www.kaplan.com
		The Princeton Review	www.princetonreview.com
		Sylvan learning System	www.sylvan.net
	Before, After & Summer schools	Knowledge University Education	www.knowledgeu.com
	Teacher Training	Renaissance Learning, Inc.	www.renlearn.com
<b>E-Services</b>	Network/Platform	Centra Software, Inc.	www.centra.com
		Indeliqu, Inc.	www.indeliqu.com
	Online-tutoring/testing	Esylvan, Inc.	www.esylvan.com
		Test University, Inc.	www.testu.com
		Tutor.com	www.tutor.com
<b>Products</b>	Textbooks	Atomic Dog Publishing	www.atomicdog.com
		Pearson Education U.S.	www.pearsoneducation.com
		Houghton Mifflin Company	www.hmco.com
		McGraw-Hill Education	www.mcgraw-hill.com
	Technology	Blackboard.com	www.blackboard.com
		eCollege.com	www.ecollege.com
		WebCT, Inc.	www.webct.com

**Corporate  
training**

Element K,LLC	www.elementk.com
Electronic Data Systems Corporation	www.eds.com
Intellinex	www.intellinex.com
IBM Global Education	www.ibm.com
Sapient Corporation	www.sapient.com

Source: 1. Merrill Lynch (1999): The Book of Knowledge; 2. Eduventures, Inc.(2003): The Eduventures 100.

## 2.1.2 For-profit higher education

At the level of post-secondary education, for-profit colleges and universities, operated by renowned "Edupreneurs", make up a substantial proportion of post-secondary institutions in the U.S.

### 2.1.2.1 Number of institutions

Among the 6463 Title IV eligible postsecondary<sup>12</sup> institutions in 2005-06, 69% are private, 40% are private for-profit, over 36% of all proprietary institutions are degree-granting<sup>13</sup> colleges and universities with 528 Title IV degree-granting 2-year colleges and 408 Title IV degree-granting 4-year colleges (NCES, 2008 c), as illustrated in figure 2-1, and figure 2-2. However, it is also important to take into consideration that for-profit degree-granting institutions constitute only one fifth of all degree-granting institutions, making up only a small percentage in contrast with their counterparts in traditional types of institutions.

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<sup>12</sup> Title IV refers to a section of the Higher Education Act of 1965 that covers the administration of the federal student financial aid program. A Title IV eligible Institution can participate in the federal student financial aid program and must be any postsecondary institution of the following: (1) an institution of higher education (with public or private, non-profit control), (2) a proprietary institution (with private for-profit control), and (3) a postsecondary vocational institution (with public or private, not-for-profit control). In addition, it must have acceptable legal authorization, acceptable accreditation and admission stands, eligible academic program(s), administrative capability, and financial responsibility (NCES, 2008 c).

<sup>13</sup> Degree-granting Institutions: Postsecondary institutions that are eligible for Title IV federal financial aid programs and grant an associate's or higher degree. For an institution to be eligible to participate in Title IV financial aid programs it must offer a program of at least 300 clock hours in length, have accreditation recognized by the U.S. Department of Education, have been in business for at least 2 years, and have signed a participation agreement with the Department.

Figure 2-1: Number of educational Institutions by control of the institution in the school year 2005-06 (NCES, 2008c)

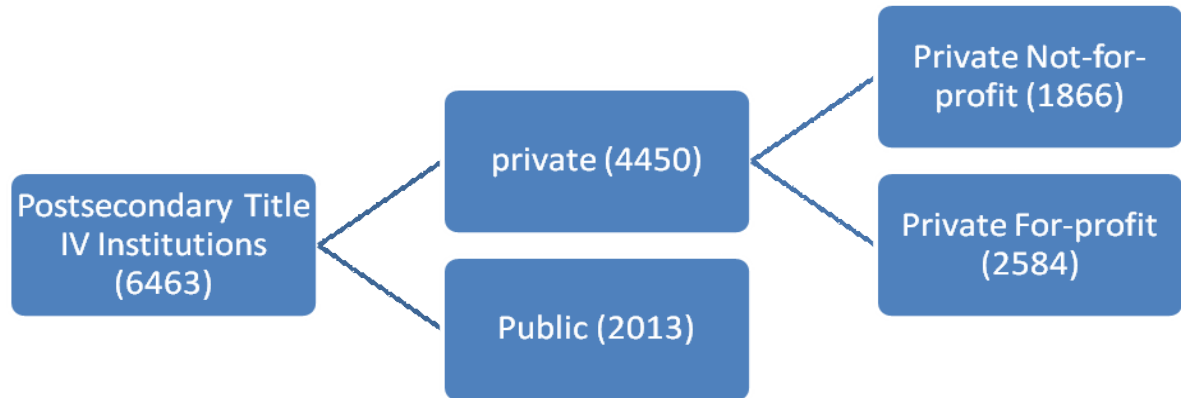
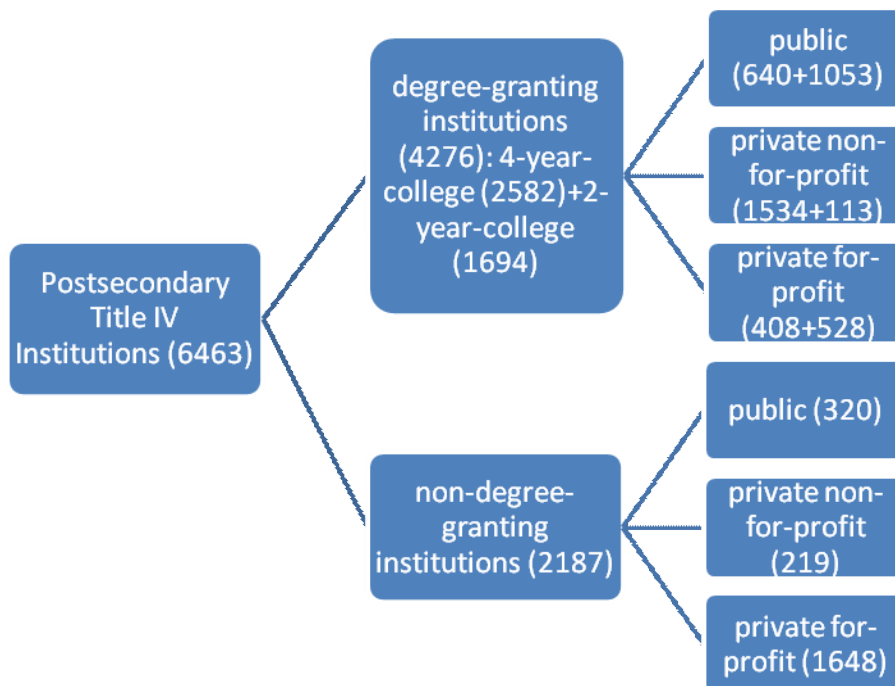


Figure 2-2: Further breakdown of number of educational Institutions by control of the institution in the school year 2005-06 (NCES, 2008c)



For profit colleges and universities offer a spectrum of diploma and degree programs including associates, bachelor's, master's and doctoral degrees in a variety of subject areas. Table 2-2 lists the number of degree programs offered by the most famous for-profit higher education providers (Blumenstyk, 2007).

Table 2-2 Number of Degree Programs Offered

<b>Company</b>	<b>Associate</b>	<b>Bachelor's</b>	<b>Master's</b>	<b>Doctoral</b>	<b>Total</b>
Apollo Group	9	31	42	6	88
Capella	0	2	6	5	13
Career Education(*)	81	68	20	3	172
Corinthian	66	17	2	0	85
Laureate(*)	0	2	20	8	30
DeVry	5	9	7	2	23
ITT	10	13	1	0	24
Strayer	7	5	6	0	18

(\*) Does not include degrees from the company's institutions based overseas.  
 Note: Information on degree programs was supplied by the companies, each of which used its own criteria in determining how to count them.



### 2.1.2.2 Enrollment

As demonstrated in figure 2-3, private higher education enrolls on average 23 per cent of all post-secondary students in the United States. However, the for-profit post-secondary higher education institutions represent only 3 per cent of total post-secondary educational system enrollments in 2004 (Guttek, et.al, 2004, p.8).

Lower ratio as it were, the growth in enrollments from year to year of the for-profits has been striking: Enrollments at for-profit degree-granting institutions increased 52 per cent between 1995 and 2000 (NCES, 2001). The most notable increase in enrollment takes place in those gigantic for-profit companies especially, as shown in the Chronicle of Higher Education's index of for-profit schools, see table 2-3.

Figure 2-3 Post-secondary Enrollment by institution Type

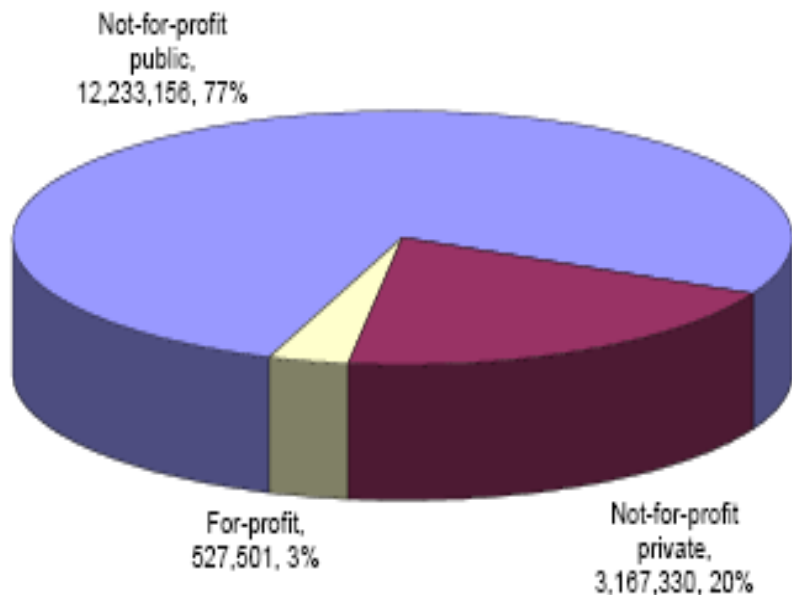


Table 2-3: Changes in Enrollment of For-profit Universities

<b>Company</b>	<b>Number of students</b>	<b>Percent increase from previous year</b>
Apollo Group	313,700 (as of Aug. 31)	11.1
Career Education	96,200 (as of Oct. 31)	7.6
Corinthian Colleges	67,445(as of Sept. 30)	6.5
Capella Education	20,268 (as of Sept. 30)	23.8
DeVry Inc.	57,538 (as of May)	10.4
ITT	53,675 (as of Sept. 30)	11.5
Strayer Education	36,082 (as of Sept. 30)	15.0

Source: The Chronicle of Higher Education, Daily Report, November 6, 2007<sup>14</sup>.

The economic crisis starting in 2008 has left public and nonprofit colleges and universities struggling with budget cuts and enrollment drop, but many for-profit institutions on the other hand present record increases in student numbers and revenue: "among 10 of the largest for-profit college companies, enrollment during the quarter ending June 30 was anywhere from 12 to more than 100 percent increase"<sup>15</sup>. This might symbolize that the recession and the cruel competition in the labor market motivate a increasing number of adult learners and nontraditional students to pursue career training and further education. ITT Educational Services, Inc., for example, reports a 27.2% increase of new student enrollment in the third quarter of 2009 and the total student enrollment goes up 28.7% to 79,208 as of Sep. 30, 2009<sup>16</sup>.

<sup>14</sup> Available online at:

<http://globalhighered.wordpress.com/2007/11/06/graphic-feed-the-profitability-of-for-profit-higher-education-in-the-us/> (accessed on Mar. 30, 2008).

<sup>15</sup> Available online at: <http://chronicle.com/article/For-Profit-Colleges-See-Lar/48173/> (accessed on Oct.27,2009 ).

<sup>16</sup>Available online at:

<http://www.ittesi.com/phoenix.zhtml?c=94519&p=irol-newsArticle&ID=1345031&highlight=> (accessed on Oct. 30, 2009).

### 2.1.2.3 Tuition Fee

Tuition and fees refer to the "payment or charge for instruction or compensation for services, privileges, or the use of equipment, books, or other goods" (NCES, 2008 b). Unlike the common speculation, tuition and fees in the for-profit colleges and universities are not necessarily higher than their counterparts.

*The Chronicle Education Review*<sup>17</sup> develops a database of tuition fees at more than 3,100 colleges and universities in the U.S. The figures are collected by the College Board in its annual survey of colleges 2009. In order to obtain an detailed comparison, the author ranks top 15 colleges and universities with highest tuition fee in each institution type (see table 2-4, 2-5, and 2-6). The figures listed include tuition and fees in the academic year 2009-10 for both state residents and out-of-state residents; tuition fees for 2008-9 with state residents only, and changes in contrasting these two academic years.

Obviously, public institutions charge the lowest tuition fees. Private nonprofits double, and private nonprofit institutions almost quadruple. If take a closer look at the data, it is hard to ignore that most of the highest charging for-profits fall into the category of Art institute. Ruling out the offerings in Art, the overall tuition level of for-profits turns out to be much lower. Table 2.7 lists tuition figures in a collection of for-profit colleges and universities (4-year or above) which is now operated by the most renowned "Edupreneurs". As brands in the for-profit education, these programs are apparently affordable, as they keep an equal level of tuition fees with some public institutions. Although the pricing may not as low as that of public institutions on average, given the fact that for-profits receive far less grants and that they pay tax while public institutions don't, it is remarkable of the unprivileged for-profits to compete in the ferocious education market.

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<sup>17</sup> <http://chronicle.com/>

Table 2-4 Tuition fee ranking--Top 15 private nonprofit colleges and universities (4-year or above) (2009)

Institution name	Tuition and Fees			
	2009-10 In-State	2008-9 In-State	%chang e	2009-10 Out-of-stat e
Sarah Lawrence C	\$41,968	\$40,350	4.0%	\$41,968
Vassar C	\$41,930	\$40,210	4.3%	\$41,930
George Washington U	\$41,655	\$40,437	3.0%	\$41,655
Columbia U	\$41,316	\$39,326	5.1%	\$41,316
Kenyon C	\$40,980	\$40,240	1.8%	\$40,980
Colgate U	\$40,970	\$39,545	3.6%	\$40,970
Carnegie Mellon U	\$40,920	\$39,564	3.4%	\$40,920
Hobart and William Smith Cs	\$40,221	\$38,860	3.5%	\$40,221
Trinity C	\$40,840	\$38,724	5.5%	\$40,840
Bucknell U	\$40,816	\$39,652	2.9%	\$40,816
Tulane U	\$40,584	\$38,664	5.0%	\$40,584
Skidmore C	\$40,420	\$38,888	3.9%	\$40,420
St. John's C	\$40,392	\$39,154	3.2%	\$40,392
Wesleyan U	\$40,392	\$38,934	3.7%	\$40,392
Tufts U	\$40,342	\$38,840	3.9%	\$40,342

Table 2-5 Tuition fee ranking--Top 15 public colleges and universities (4-year or above) (2009)

Institution name	Tuition and Fees			
	2009-10 In-State	2008-9 In-State	%chang e	2009-10 Out-of-stat e
Oregon Health and Science U	\$18,724	\$18,341	2.1%	\$29,974
Penn State, U Park	\$14,416	\$13,706	5.2%	\$25,946
U of Pittsburgh, main campus	\$14,154	\$13,642	3.8%	\$23,852
U of Vermont	\$13,554	\$12,844	5.5%	\$31,410
U of Medicine and Dentistry of New Jersey	\$13,302	\$12,221	8.8%	\$17,652
St. Mary's C of Maryland	\$13,234	\$12,604	5.0%	\$24,627
New Jersey Inst of Tech	\$12,860	\$12,482	3.0%	\$22,604
Penn State, Altoona	\$12,750	\$12,182	4.7%	\$19,078
Penn State-Berks	\$12,750	\$12,282	3.8%	\$19,078
Penn State, Erie	\$12,750	\$12,282	3.8%	\$19,078
Penn State-Harrisburg	\$12,750	\$12,282	3.8%	\$19,078
C of New Jersey	\$12,722	\$12,308	3.4%	\$21,408
U of Illinois, Urbana-Champaign	\$12,524	\$12,240	2.3%	\$26,666
Pennsylvania C of Tech	\$12,480	\$11,790	5.9%	\$15,630
Penn State-Lehigh Valley	\$12,250	\$11,750	4.3%	\$18,268
Penn State-New Kensington	\$12,200	\$11,700	4.3%	\$18,218

Table 2-6 Tuition fee ranking--Top 15 private for-profit colleges and universities (4-year or above) (2009)

Institution name	Tuition and Fees			
	2009-10 In-State	2008-9 In-State	%chan ge	2009-10 Out-of-state
West Coast U	\$30,075	\$30,075	0.0%	\$30,075
Sch of Visual Arts	\$26,800	\$25,500	5.1%	\$26,800
Research C of Nursing	\$25,690	\$24,480	4.9%	\$25,690
Rocky Mountain C of Art & Design	\$24,840	\$22,992	8.0%	\$24,840
Post U	\$24,200	\$23,425	3.3%	\$24,200
Art Inst of California, San Diego	\$24,144	\$22,272	8.4%	\$24,144
Art Inst of California, Orange County	\$23,384	\$23,384	0.0%	\$24,344
Art Inst of Colorado	\$22,904	\$21,992	4.1%	\$22,904
Art Inst of California, Hollywood	\$22,835	\$21,835	4.6%	\$22,835
Art Inst of California, San Francisco	\$22,685	\$21,375	6.1%	\$22,685
Neumont U	\$22,500	\$28,275	-20.4%	\$22,500
Academy of Art U	\$22,490	\$20,390	10.3%	\$22,490
Art Insts International Minnesota	\$22,416	\$21,552	4.0%	\$22,416
Art Inst of California, Hollywood	\$22,835	\$21,835	4.6%	\$22,835
Art Inst of Charlotte	\$22,188	\$20,448	8.5%	\$22,188

Table 2-7 Tuition fee of private for-profit colleges and universities (4-year or above) operated by major "Edupreneurs"(2009)

"Edupreneur"	Institution name	Tuition and Fees			
		2009-10 In-State	2008-9 In-State	% Change	2009-10 Out-of-state
Apollo Group	U of Phoenix	\$11,937	\$10,849	10.0%	\$11,937
	Western International U	\$11,250	\$10,950	2.7%	\$11,250
Career Education Corp.	Briarcliffe C	\$18,592	\$17,568	5.8%	\$18,592
	Brooks Inst	\$17,840	\$17,840	0.0%	\$17,840
	Brown C	\$16,956	\$16,835	0.7%	\$16,956
	Collins C	\$14,925	\$14,925	0.0%	\$14,925
	Colorado Tech U	\$13,340	\$13,025	2.4%	\$13,340
Laureate Education Inc.	Walden U	\$11,790	\$11,700	0.8%	\$11,790
	NewSch of Architecture and Design	\$21,225	\$19,845	7.0%	\$21,225
Strayer Education	Strayer U	\$13,635	\$12,920	5.5%	\$13,635
Capella Education	Capella U	\$13,275	\$13,950	-4.8%	\$13,275
Education Management Corp.	Argosy U, Chicago	\$15,612	\$14,750	5.8%	\$15,612
	South Columbia U	\$14,985	\$13,035	15.0%	\$14,985
	South Savannah U,	\$14,985	n/a	n/a	\$14,985
DeVry Inc.	DeVry Inst of Tech	\$14,800	\$14,800	0.0%	\$14,800
	DeVry Houston U	\$14,160	\$14,130	0.2%	\$14,160
	DeVry Arlington U,	\$14,160	\$14,390	-1.6%	\$14,160
	DeVry Charlotte Center U	\$14,160	\$13,930	1.7%	\$14,160

### 2.1.3 For-profit Education Stock

The for-profit market keeps on expanding. For instance, the industry of postsecondary education is growing at 15-20% (Guttek et al., 2004), far outpacing largely the growth in the economy. With increasing momentum, for-profits are starting to go public. Listed education companies are chiefly traded on the NASDAQ and have been achieving spectacular financial success in terms of the boom of market capitalization, revenue and other indicators. Yahoo Finance “schools” category<sup>18</sup> as a updating information source, shows that the biggest performer is the University of Phoenix<sup>19</sup> based Apollo Group<sup>20</sup>, the largest private institution of higher education and largest publicly-held for-profit company of postsecondary education in the US. APOL stock is up nearly 10,000% since its IPO a decade ago (UOP, 2001). According to The New York Times reporter Eryn Brown, publicly traded postsecondary-education stocks rose 460 percent from 2000 to 2003, compared with a 24 percent loss for the Standard & Poor's 500-stock index (Brown, 2004). Table 2-8 lists some common metrics of publicly traded for-profit higher education provider (Levy, 2006).

In recent years, for-profit education enterprises continue to intrigue investors and march into the stock market:

- On Nov. 19th. 2008, Grand Canyon Education Inc., which runs the for-profit Grand Canyon University in Arizona, raised \$126-million in his initial public offering. Grand Canyon University, a former nonprofit institution, was acquired by investors in 2004 and reported a sharp enrollment rise ever since mainly through online programs fort adult students. As of Sep. 30. 2008, the university enrolled about 22,000, about a 63 per cent increase over the figure of a year earlier (Blumenstyk, 2008).

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<sup>18</sup> <http://biz.yahoo.com/ic/766.html>

<sup>19</sup> <http://www.phoenix.edu/>

<sup>20</sup> <http://www.apollogrp.edu/>



- Bridgepoint Education, attending 31,000 students online, raised about \$142-million and began trading in April, 2009 on the New York Stock Exchange. Previously, Bridgepoint has acquired two nonprofit colleges — Ashford University, in Iowa, and the University of the Rockies, in Colorado (Blumenstyk, 2009).

Table 2-8: Publicly Traded For-Profit Higher Education Providers (2006)

Major for-profit higher education providers	Revenue	Market Cap <sup>21</sup>	EPS <sup>22</sup>	P/E <sup>23</sup>
Apollo Group Inc.	2.35B	9.64B	2.54	21.88
Career Education Corp.	2.00B	3.07B	2.17	14.49
ITT Educational Services Inc.	672.93M	2.65B	2.24	25.54
Laureate Education Inc.	867.00M	2.61B	1.34	25.32
Education Management Corporation	1.06B	2.40B	1.42	18.15
DeVry Inc.	788.69M	1.34B	0.44	43.20
Strayer Education Inc.	210.76M	1.31B	3.12	24.07
Corinthian Colleges Inc.	975.25M	1.13B	0.55	18.79
Universal Technical Institute	310.80M	896.58M	1.25	18.96
Lincoln Educational Services	290.80M	420.83M	0.52	19.68
Concorde Career Colleges Inc.	84.37M	78.51M	0.48	17.99

Source: Yahoo! Finance. Compiled by the author

<sup>21</sup> Market capitalization—measure of a company's total value

<sup>22</sup> EPS—earning per share

<sup>23</sup> P/E—price per equity, that is how much market is willing to pay for company's earnings

## 2.1.4 Merger and Acquisition (M&A) in the Education Sector

Merger & acquisition is very active in the for-profit education sector, which shows the confidence of investors in the margin. Table 2-9 exemplifies deals transacted in 2007. These cases of M&A in education services sector involve good amount of money, like DeVry paid \$27.5 million to acquire Advanced Academics, and Laureate Education attracted \$3.6 billion from Kohlberg Kravis Roberts, Citigroup Private Equity, SAC Capital Management, and others investors.

Table 2-9 Merger and Acquisitions in education sector in the U.S

<b>Time</b>	<b>Target Enterprise</b>	<b>Investors</b>
17.10.07	Advanced Academics	DeVry
11.04.07	University of Miami Online High School and Virtual Sage	Kaplan
28.02.07	Keen Skill (Specialized Solutions)	Riverside
15.02.07	EduNeering	Kaplan
09.02.07	South Texas Vocational Technical Institute	Riverside
28.01.07	Laureate Education	Kohlberg Kravis Roberts, Citigroup Private Equity, SAC Capital Management, and others
10.01.07	Insight Schools	Apollo Group

Source: Thomson Financial. Compiled by the author.

And the list goes on and on. Just in Oct., 2009, the test-prep company Princeton Review announced an acquisition of the Penn Foster Education Group, which operates an online college and high school, and Corinthian Colleges Inc. announced that it would pay \$395 Million to buy the parent company of Heald College, a company that runs an 11-campus system of regionally accredited institutions offering mostly two-year programs<sup>24</sup>. These deals heat up the for-profit sector continuously.

These Merger and Aquisitions often constitutes the market strategy of the for-profit "Edupreneurs". The Apollo group, the largest for-profit education provider at the post-secondary level, is now operating in 157 "learning centers" around 44 countries. After acquiring the Insight Schools in 2007, Apollo Group successfully entered into the K-12 market.

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<sup>24</sup> Available online at: <http://chronicle.com/blogPost/Another-Day-Another-For-Pr/8526/> (accessed on Feb.27,2009).

## 2.1.5 Arguments

### 2.1.5.1 "Diploma Mills"

The for-profits have high graduation rate, making up 4.8% of degrees granted as of 2002. Specifically, for-profit higher education providers grant 13.1% of associate degrees, 2.0% of bachelor's degrees, 3.0% of masters degrees, 1.5% of doctoral degrees, and a mere 0.2% of professional degrees in total (NCES, 2003). On the other hand, the total expenditure of the for-profit, degree-granting educational segment, about \$10 billion of annually, is relatively low, representing approximately 3% of total postsecondary spending, and 8–10% of private postsecondary spending (NCES, 2003).

Consequently, for-profit higher education institutions are often criticized as "Diploma Mills", resulting in the jeopardy toward the public and a negative light casted on the legitimate institutions that provide professional education programs (Sperling, 1997). Sperling argues that consumers of higher education are not ignorant, or easily corrupted by the possibility of simply buying a degree without any personal improvement. He points out that more substandard adult program are actually found in traditional adult learning and education taking place in traditional classrooms on traditional campuses. They are substandard because they were not designed for the adult learner and are characterized by inappropriate curricula and ineffective instruction. Furthermore, most of the substandard adult outreach programs are offered by financially weak traditional institutions that use the income from the adult outreach programs to fund their on-campus operations (ibid.). In other words, the condemnation of "Diploma Mills" is the scapegoat of why the public is dissatisfied with higher education. The core of this matter is not how many and how often diplomas being granted, but the urging discrepancy between the

roaring tuition, usually two to three times of the inflation rate, and the degrading quality of the graduates of accredited colleges and universities, often ill-prepared graduates for business and industry.

#### 2.1.5.2 Fraud

During the 2007-8 academic year, students at more than 2,000 for-profit colleges received more than \$16-billion in loans, grants, and campus-based federal aid, which makes up 19 percent of federal student aid. But, according to a report issued by the Government Accountability Office on 21st Sep. 2009, students at for-profit colleges and universities are more likely to default on federal student loans (about 23.3 percent) than their counterparts at private nonprofit (6.5 percent) and public institutions (9.5 percent). For-profit institutions are criticized to help students obtain high-school diplomas from diploma mills to become eligible for federal aid. It has been found out that test administrators at a local for-profit college "gave out answers and changed students' answer sheets so that they would be eligible for federal funds" (Nelson, 2009).

## 2.2 Global For-Profit Education (except for Germany and China)

According to previous research, proprietary training has also been established in Australia (Lundberg 1994), Germany (Buer1995), Japan (Harnisch, 1994) and so on. In the strict sense, for-profit institutions use strict business principles of operation, such as targeting specific group of customers or developing standardized “products”, and such is an international phenomenon, as shown in table 2-10 (compiled by the author, with no attempt to include all examples).

Table 2-10 Non-US For-Profits

<b>Country</b>	<b>Company name</b>	<b>Homepage</b>
UK	Daily Mail and General Trust	<a href="http://www.dmgt.co.uk">www.dmgt.co.uk</a>
	University of Liverpool	<a href="http://www.liv.ac.uk">www.liv.ac.uk</a>
	NCC Education	<a href="http://www.nccedu.com">www.nccedu.com</a>
Australia	IBT	<a href="http://www.ibteducation.com">www.ibteducation.com</a>
Singapore	Raffles Education Corp.	<a href="http://www.raffles-education-corporation.com">www.raffles-education-corporation.com</a>
	APMI	<a href="http://www.apmi.edu.sg">www.apmi.edu.sg</a>
Malaysia	INTI International University College	<a href="http://www.intimal.edu.my">www.intimal.edu.my</a>
India	NIIT	<a href="http://www.niit.com">www.niit.com</a>
Pakistan	Beaconhouse	<a href="http://www.beaconhouse.net">www.beaconhouse.net</a>
Cyprus	Intercollege	<a href="http://www.intercol.edu">www.intercol.edu</a>
	Americanos College	<a href="http://www.ac.ac.cy">www.ac.ac.cy</a>
	Cyprus College	<a href="http://www.cycollege.ac.cy">www.cycollege.ac.cy</a>
Mexico	Universidad de las Américas	<a href="http://www.udlap.mx">www.udlap.mx</a>

Compiled by the author.

Global for-profit education is greatly influenced by major "Edupreneurs" from the U.S., for instance, U.S. based Kaplan Higher Education International, has already established two large education providers in the U.K., in cooperation with Bridgepoint Education. Laureate Education has also set up branches in many European countries. In fact, these global "Edupreneurs" have for a long time been operating in regions with large populations like Asia and South America. These areas, with high percentage of young people and centralized higher education system, which fail to address the increasing educational demand promptly, are always heated destinations of global education industry. A major strategy of these international education providers marching into a new market is through merger and acquisition. This is also true for any expansion of a domestic provider (Savelberg, 2008). Table 2-11 summarizes a list of M&A deals in Asia (except China). Table 2-12 and 2-13 list Merger and Acquisition deals in South America and Europe respectively.

Table 2-11 Merger and Acquisitions in education sector in Asia (except China)

<b>Time</b>	<b>Target Enterprise</b>	<b>Nationality</b>	<b>Investor</b>	<b>Nationality</b>
01.02.08	China Education	Singapur	Raffles Education	Singapur
01.02.08	Hartford Education	Singapur	Raffles Education	Singapur
12.09.07	INTI Universal Holdings	Malaysia	Laureate Education	USA
14.08.07	Bradford College	Australien	Kaplan	USA
27.06.07	NIIT	Indien	Citigroup Global Market	Indien
02.02.07	Australian College Business & Technology	Sri Lanka	IBT Education	Australien

Source: Thomson Financial. (Compiled by the author)

Table 2-12 Merger and Acquisition in education sector in South America

<b>Time</b>	<b>Target Enterprise</b>	<b>Nationality</b>	<b>Investor</b>	<b>Nationality</b>
22.01.08	Faculdades Integradas Padre Anchieta de Guarapari (FIPAG)	Brasikien	Kroton Educacional	Brasilien
12.12.07	Uniao Metropolitana de Ensino Paranaense	Brasilien	Kroton Educacional	Brasilien
01.09.07	Universidad Privada Del Norte	Peru	Laureate Int'l Universities (Laureate Education)	USA

Source: Thomson Financial. (Compiled by the author)

Table 2-13 Merger and Acquisitions in education sector in Europe

<b>Time</b>	<b>Target Enterprise</b>	<b>Nationality</b>	<b>Investor</b>	<b>Nationality</b>
06.11.07	Primrose Friskola	Schweden	Anew Learning Group -Bure Equity	Schweden
30.10.07	The British School of Barcelona	Spanien	Cognita	UK
24.10.07	Docando SL y Colegio Internacional Nueva Alcantara	Spanien	Colegios Laude	Spanien
23.10.07	AcadeMedia	Schweden	Bure Equity	Schweden



01.10.07	Progressive Schools-Yorks	UK	Cognita	UK
11.09.07	Fenestra Utbildning	Schweden	Anew Learning Group -Bure Equity	Schweden
04.09.07	Technical Health Colleges of TERTIA Edusoft Schweiz	Switzerland	SRH Holding	Germany
02.08.07	Portobello College Dublin	Irland	Dublin Business School-Kaplan	Irland
06.03.07	Cambridge Education Group	UK	Palamon Capital Partners	UK
22.02.07	Nordic Technical Institute-NTI	Schweden	AcadeMedia	Schweden
25.01.07	Istituto Marangoni	Italien	Career Education	USA

Source: Thomson Financial. (Compiled by the author)

At the same time, other providers also swarm into the market of post-secondary education and training services, displaying for-profit characteristics, if not in the strict sense of for-profit institution.

- For-profit arms of traditional universities.

Such providers, with the support of "mother" university especially in terms of resources and experiences, now extend their offering to working adults. Examples include NYU's School of Continuing and Professional studies:

- Virtual universities.

Conventional university service is also provided by virtual universities but mainly via information and communication technology. Examples are abundant: National Technological University (Sylvan); Open Learning Agency of Australia; Western Governors University; Open University worldwide (UK); Army

University Access Online, and so on.

- Corporate training<sup>25</sup>.

Corporate training is generally offered by multinational companies as spin-offs. Except for the interior training for their employees around the globe, those mature programs are also used to train life-long learners, suppliers and customers, sometimes deliver certificates and even degrees. Many multinational companies are favorable providers in this category, such as General Electric Crotonville; Motorola University; McDonalds Hamburger University; Sun Microsystems Educational Services; Fordstar; Microsoft's Certified Technical Education Centers (CTECs) and so on.

- Partnerships<sup>26</sup>.

This often refers to as PPP, an abbreviated form of Private-Public-Partnership or Public-Private-Partnership, Universitas 21, Trium EMBA (LSE, Stern of New York, HEC Paris), and U21global (U21& Thomson learning) <sup>27</sup> for instance.

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<sup>25</sup> Comments and cases: over 1600 in 1998 in North America; 42% of all American "corporate universities" provide courses for which a degree could be granted at an educational institution. For example, Microsoft: 1700 franchised private training companies (CTECs) internationally, using Microsoft Certified trainers and the Microsoft Official Curriculum.

<sup>26</sup> Increasing number of partnerships and ventures in e-learning and international programs

<sup>27</sup> U21 global: online University concentrating on the postgraduate business education sector in Singapore, Malaysia, and Hong Kong, with expansion plans targeting students in Africa, China, and Latin America.

## 2.3 For-Profit Education in Germany

Germany is an interesting and unique case. The concepts of “for-profit education” and sometimes even “private education” appear to be invisible, at least in the mainstream educational discourses, although the benefit of competition between state and private universities is well known, and this competition is projected to exert a positive impact on science and research, as well as create transparency and comparability for programs and degrees in general.

### 2.3.1 Private Higher Education in Germany

According to HRK<sup>28</sup>, German higher education institutions are classified in 3 types: state-run; private, state-accredited; and church run, state-accredited, if defined by ownership. Featured by jurisdiction of degree granting, there are mainly doctorate-granting universities; non-doctorate-granting universities of applied science (Fachhochschulen); and colleges of Arts and Music (Kunst- und Musikhochschulen). Table 2-14 lists the record of institution number of various type. Table 2-15 lists the respective enrollment as of Sep. 2008.

The tiny percentage of enrollment in private education strongly suggests that it has not played a role in the Humboldt ideal of education system in Germany. No wonder that there is next to nothing in the way of information on the topic of “for-profit” or “private” can be found in the “Bildung in Deutschland 2008” (BMBF, 2008), within the total 340-page volume. Nor has private higher education ever received full support in Germany.

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<sup>28</sup> The main data source of following investigation regarding private higher education in Germany is the German Rectors' Conference (Hochschulrektorenkonferenz-HRK) in a web-based "higher education compass".

Table 2-14 type and number of German higher education institution

ownership	Jurisdiction	State-run	Private, state-accredited	Church-run, state-accredited
Doctorate-granting universities		88	9	12
Non-doctorate-granting universities of applied science		99	70	20
Colleges of Arts and Music		46	1	8
Total		233	80	40
Percentage		66.0%	22.7%	11.3%

Source: Higher Education Compass. Available online at: [www.higher-education-compass.de](http://www.higher-education-compass.de) (accessed on Sep.08, 2008).

Table 2-15 Number of Students

ownership	Jurisdiction	State-run	Private, state-accredited	Church-run, state-accredited
Doctorate-granting universities		1319021	8574	7275
Non-doctorate-granting universities of applied science		469932	59421	16199
Colleges of Arts and Music		30501	415	805
Total		1819454	68410	24279
Percentage		95.1%	3.6%	1.3%

Source: Higher Education Compass. Available online at: [www.higher-education-compass.de](http://www.higher-education-compass.de) (accessed on Sep.08, 2008).

Restrictions are more common in this sector. For instance, according to “Zur Zusatzfinanzierung privater Hochschulen aus öffentlichen Mitteln” in 1998, a resolution regarding public financing for private universities,

“Private universities could only fulfill their responsibilities in a qualitatively acceptable manner by having adequate human, spatial facility and equipment resources at their disposal. They should, by

principle, be privately financed. Public subvention is only acceptable when this brings additional benefit to the public authorities, e.g. by enabling innovative study opportunities to be offered. ... Since the topic complex is equally relevant to all types of higher education institutions, the debate will be continued on a broad basis with the HRK ( p.28).”

Even if opposition to privatization has been prevailing, private higher education has shown a rapid increase in the recent decades, featured with greater autonomy and more effectiveness. As of Oct. 2009, the number of private higher education institution totals up 90, approximately 12.6% increase comparing a year earlier; the number of attending students goes up 21.2%, standing at 82849<sup>29</sup>. Still a tiny percentage (about 4.2%) in the total enrollment in Germany as it were, the private higher education in Germany demonstrate surprising vigor and potential.

These state-accredited degree-granting private universities and colleges<sup>30</sup> around Germany share similarities:

- They are mostly small sized with much smaller enrollment than public institutions. Table 2-16 groups the private higher education institutions by size. Roughly 58% of private higher education institutions (with available data) attend less than 600 students. Extreme cases are *ISS International Business School of Service Management Hamburg*<sup>31</sup> with 4 students in the academic year 2008/09, and *Internationale Fachhochschule für Exekutives Management Berlin*<sup>32</sup> with 20. On the contrary, it is rare of private institutions registering over 4000 students. The giant private universities like *Rheinische Fachhochschule Köln*<sup>33</sup> and *Hamburger Fern-Hochschule, gemeinnützige GmbH*<sup>34</sup>, attending 4712 and 7050

<sup>29</sup> www.higher-education-compass.de Retrieved from 30.10.2009

<sup>30</sup> www.hochschulkompass.de Retrieved from April 27, 2008.

<sup>31</sup> www.iss-hamburg.de

<sup>32</sup> www.i-h-berlin.de

<sup>33</sup> www.rfh-koeln.de

<sup>34</sup> www.hamburger-fh.de

students respectively in the academic year 2008/09 are still dwarfs compared to public institutions. The only exception with over ten thousand students is the *Fachhochschule für Oekonomie & Management (FOM)-Staatlich anerkannte Fachhochschule für Berufstätige - Essen*<sup>35</sup>, registering 12674 students in 2008/09.

- The majority of these private universities are young. The oldest private institution is the *Technische Fachhochschule Georg Agricola für Rohstoff, Energie und Umwelt zu Bochum - Staatlich anerkannte Fachhochschule der DMT*<sup>36</sup>, which was set up in 1816. *Hochschule Fresenius - Idstein*<sup>37</sup> and *Leipzig Graduate School of Management*<sup>38</sup> are another two private institutions with more than 100-year history. During the first half of the 20<sup>th</sup> century, only 2 private institutions were founded and then 2 more institutions in the 50s and 60s. Subsequently, 3 private institutions were formed in the 70's, and 8 more in 80s, with which the private sector began to march forward at a faster-pace. In the last decade of 20th century, the number of new institutions showed an unprecedented double digit increase. And the recent decade witnessed the establishment of 45 private institutions of higher education. Table 2-17 groups the private higher education institutions by founding year.
- Most of the private universities are only legitimized to offer undergraduate education. Only ten are authorized with the granting of doctorate degrees. Table 2-18 lists information about these ten private universities.
- These private universities are either established by business and industry (i.e., corporate universities) or individual interest groups. They often charge high tuition fee and advertise their services by “emphasizing their international orientation, their small number of students and their tightly-organized and success-oriented studies” (Landfried, 2002).

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<sup>35</sup> [www.fom.de](http://www.fom.de)

<sup>36</sup> [www.tfh-bochum.de](http://www.tfh-bochum.de)

<sup>37</sup> [www.hs-fresenius.de](http://www.hs-fresenius.de)

<sup>38</sup> [www.hhl.de](http://www.hhl.de)

- Private universities are often specialized in certain subjects, offering degree programs in their specific field, often career-related. Their offerings chiefly center on popular majors, such as “Business Administration” (e.g. *HSBA Hamburg School of Business Administration*<sup>39</sup> and *ESCP-EAP Europäische Wirtschaftshochschule Berlin*), “Medical Science” (e.g. *Universität Witten-Herdecke*), “Law” (e.g. *BLS-Bucerius Law School-Hamburg*, offering courses in Law with the degree Baccalaureus Legum, or LL.B. For short, and the German First Legal State examination), “Health” (SRH Fachhochschule für Gesundheit Gera gGmbH<sup>40</sup>), “Design” (*Design akademie berlin - Hochschule für Kommunikation und Design Berlin*<sup>41</sup> and *AMD Akademie Mode und Design*<sup>42</sup>), and so on. Only few private higher education institutions in Germany cover a broader spectrum of courses, like the *Jacobs University*.
- Many private universities in Germany maintain a fairly high percentage of foreign students and teach in English (e.g. SIMT-Stuttgart Institute of Management and Technology<sup>43</sup>). Titled with “School”, they often show a closer orientation toward the international standards (eg. *International Business School Berlin*<sup>44</sup> and *EBZ Business School - University of Applied Sciences - Bochum*<sup>45</sup>).
- Study programs in German private universities tend to adopt a Bachelor’s/Master’s structure, in accordance with the ongoing Bologna Process. There are also private institutions that offer courses with the Diplom/Diplom (FH) degree, or provide the both traditional and new study programs at the same time. Table 2-19 sums up the number of degrees at private higher education institutions by type of qualification.

<sup>39</sup> [www.hsba.de](http://www.hsba.de)

<sup>40</sup> [www.gesundheitshochschule.de](http://www.gesundheitshochschule.de)

<sup>41</sup> [www.design-akademie-berlin.de](http://www.design-akademie-berlin.de)

<sup>42</sup> [www.hs-amdnet.de](http://www.hs-amdnet.de)

<sup>43</sup> [www.uni-simt.de](http://www.uni-simt.de)

<sup>44</sup> [www.ibsberlin.com](http://www.ibsberlin.com)

<sup>45</sup> [www.ebz-business-school.de/](http://www.ebz-business-school.de/)

- Private universities emphasize their smaller class size, closer contact between professors or instructors with students as well as closer relationship between students, which are assumed to yield better learning atmosphere and study result.

Table 2-16 Private higher education institutions by number of students

<b>Size range</b>	1-300	300-600	600-1000	1001-3000	3001-4000	> 4000	N.A <sup>46</sup>
<b>Number of institution</b>	27	20	8	19	4	3	9

Source: Higher Education Compass. Available online at: [www.higher-education-compass.de](http://www.higher-education-compass.de) (accessed on Sep.10, 2008).

Table 2-17 Private higher education institutions by founding year

<b>Founding year</b>	19 <sup>th</sup> C <sup>47</sup> .	1900-1959	1960-1979	1980-1989	1990-1999	2000-	N.A
<b>Number of institution</b>	3	4	5	8	21	46	3

Source: Higher Education Compass. Available online at: [www.higher-education-compass.de](http://www.higher-education-compass.de) (accessed on Sep.10, 2008).

Table 2-18 Private institutions with the right to award doctorate-degrees

<b>Number of institution</b>	<b>Founding year</b>	<b>Size (08/09)</b>
ESCP-EAP Europäische Wirtschaftshochschule Berlin <sup>48</sup>	1973	134
International Psychoanalytic University Berlin <sup>49</sup>	2009	n/a

<sup>46</sup> Not available.

<sup>47</sup> Century

<sup>48</sup> [www.escpeurope.de](http://www.escpeurope.de)

<sup>49</sup> [www.ipu-berlin.de](http://www.ipu-berlin.de)



Steinbeis-Hochschule Berlin <sup>50</sup>	1998	3109
Jacobs University Bremen <sup>51</sup>	1999	1212
Frankfurt School of Finance & Management <sup>52</sup> - Frankfurt am Main	1990	1074
Bucerius Law School <sup>53</sup> , Hamburg	2000	560
Leipzig Graduate School of Management	1898	310
European Business School <sup>54</sup> , International University Schloß Reichartshausen Oestrich-Winkel	1971	1332
WHU - Otto Beisheim School of Management <sup>55</sup> - Vallendar	1984	474
Private Universität Witten/Herdecke gGmbH <sup>56</sup>	1994	1982

Source: Higher Education Compass. Available online at: [www. higher-education-compass.de](http://www.higher-education-compass.de) (accessed on Sep.12, 2008).

Table 2-19 Number of degrees at private higher education institutions by type of qualification

<b>Degrees</b>	<b>Sum</b>
Baccalaureate / Bachelor	365
Diplom	3
Diplom (university of applied sciences)	12
Final examination	4
Magister	6
State Examination	4
Sum	394

Note: The data relate to all study opportunities covered by the Hochschulkompass that are open to beginner students. Source: Higher Education Compass. Available online at: [www. higher-education-compass.de](http://www.higher-education-compass.de) (accessed on Sep.12, 2008).

<sup>50</sup> [www.steinbeis-hochschule.de](http://www.steinbeis-hochschule.de)

<sup>51</sup> [www.jacobs-university.de/](http://www.jacobs-university.de/)

<sup>52</sup> [www.frankfurt-school.de](http://www.frankfurt-school.de)

<sup>53</sup> [www.law-school.de](http://www.law-school.de)

<sup>54</sup> [www.ebs.de](http://www.ebs.de)

<sup>55</sup> [www.whu.edu](http://www.whu.edu)

<sup>56</sup> [www.uni-wh.de](http://www.uni-wh.de)

However, almost all the private universities in Germany claim to be non-for-profit, as if simply the name of “for-profit” were demon in the education arena. The only exception known so far according information at hand is the Hanseatic University<sup>57</sup>, which seeks capital from share owners and official degree recognition from the relevant state authority. And seldom do private educational companies break the listing barriers, going public and listing in the three different stock exchange segments in Germany. To date, even the largest international “Edupreneurs” have not been able to gain a foothold in Germany; noting that: Apollo recently failed to maintain its 2 MBA schools in Köln and Düsseldorf and Laureate Education<sup>58</sup> failed venture at die Fachhochschule Bad Honnef.

Albeit Germany has been avoiding the private surge, and thus a for-profit surge so far, yet it may not remain immune from the impact of related education privatization and internationalization in the long run. According to HRK<sup>59</sup>, the Länder are opening their state higher education acts to new forms of legal bodies, for example, public foundations as university maintaining bodies. Some Länder promote private universities, some in the doubtful hope of reducing the financial burden on themselves. And then there is the free movement of services in the European Union, whose members may establish “branches” in Germany. Equivalent branches formed by institutions from non-European areas are also already possible and might be increasingly established in the future within the scope of GATS (OECD, 2002, p.27).

Accompanying the transformation of German educational policy is the redoubling of efforts by the “for-profits” to penetrate the German marketplace. International capital has already taken steps in the German market and invested in the private education sector, see table 2-20. Laureate Education acquired Business and Information Technology School (BiTS) in Iserlohn by

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<sup>57</sup> [www.hanseuni.de](http://www.hanseuni.de)

<sup>58</sup> Laureate is the world’s fifth largest education-konzern.

<sup>59</sup> HRK:Hochschulrektorenkonferenz.

the end of January 2008 and Apollo is still pursuing accreditation and even setting up a Fachhochschule in Nordrhein-Westfalen. At the same time, domestic enterprises are also active in educational transaction. Now, the Koelner Cognos AG as well as the Hamburger Beteiligungsgesellschaft Educationtrend AG, which are sponsored by private investors, operate both the Private Hanseuniversitaet Rostock and International University Bruchsal. In addition, there are over 80 corporate universities in Germany (Wimmer, 2002), offering in-job training and business-related postgraduate teaching courses with international or national degree courses (ABB University Germany, Deutsche Bahn University, Deutsche Bank University, and Telekom Business Academy for instance).

Changes in German education landscape can be observed everyday: state-run universities set up their own Business School charging high tuition fee; EMBA (Executive MBA-Programme) and other high profile continuing education offerings do not frighten participants away for their striking cost; adult learning and long-distance study programs attract an increasing amount of people of various age groups. Changes are shaping a new education landscape for future.

Table 2-20 Merger and Acquisitions in education sector in Germany

<b>Time</b>	<b>Target (Germany)</b>	<b>Enterprise</b>	<b>Investor</b>	<b>Nationality</b>
22.01.08	Business and Information Technology School (BiTS)		Laureate Education	USA
14.11.07	OTA Hochschule		SRH Holding	Germany
23.07.07	Internationale Fachhochschule Honnef-Bonn	Bad	AuCTUS Management	Germany
27.06.07	Ventafonds Deutscher Bildungsfonds/ Private Hanseuniversitaet	Erster	Educationtrend	Germany

	Rostock		
27.06.07	Internatioanl University Bruchsal	Educationtrend	Germany
20.06.07	Universitaet Witten/Herdecke	Droege International	Germany
16.03.07	InWEnt-Internationale Weiterbildung und Entwicklung	Kreditanstalt fuer Wideraufbau	Germany
01.03.07	Stuttgart Institute of Management and Technology	Steinbeis-Hochschule Berlin	Germany

Source: Thomson Financial. (Compiled by the author).

### 2.3.2 German “Edupreneurs”

The advent of for-profit universities might threaten the German educational status quo, because for-profit educational companies are eager to take their chances in Germany. According to Stannek & Ziegele (2007), the SRH Learnlife AG is one of the largest private institution in Germany with 5500 students in 50 vocational training programs. Having invested €31 million in a new multimedia campus, the SRH reported a turnover volume of €101.7 million and an annual rate of return of 5.7% in 2003. Peters Bildungs GmbH, with a focus on job- and career-related education and training, claims an annual sales of over €22 million. As matter of fact, there are numerous "Edupreneurs", heterogeneous in size and field, operating on the education market in Germany. They specialize in particular areas and act actively as providers of private training and coaching. Take Munich as an example. The most frequent fields of private training provision are language training; information technology or computer application; mass media; communication; and management, which are exemplified in table 2-21.

Table 2-21 "Edupreneurs" in Munich by operation fields (Examples)

<b>Fields</b>	<b>"Edupreneurs"</b>
language training	Inlingua Sprachschule Muenchen; Carl Duisberg Centrum Muenchen
IT	NETCOS AG; INSYS Informations-Systeme GmbH;
mass media	MACROMEDIA GMBH;
communication	Das Institut mindSYSTEMS;DKS Akademie;
management	Gross.Erforges.College; ATV Ausbildung Training Vernetzung GmbH;

Compiled by the author.

Education product and services offered by private education enterprises are often expensive. The training for Global Career Development Facilitator (GCDF) courses<sup>60</sup>, accredited by National Board for Certified Counselors in the U.S. enables participants to become a career counselor, charge €2380 Euro in total, much even higher than the original course in the U.S. (around US\$ 950-1500).

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<sup>60</sup> The Global Career Development Facilitator (GCDF) credential provides standards, training specifications and credentialing for career providers who work in a variety of career development settings and for those who are interested in becoming career providers, with up-to-date career development knowledge.

## 2.4 For-Profit Education in China

In the case of Chinese education, there are many similarities to Germany but also many differences. China is similar to Germany in that public provision of education has played a dominant role for centuries; which is why private higher education institutions hardly survive, let alone gain wide recognition. In China, private sector exists under the concept of minban (people-run) school long before, avoiding the label of “private”. Although the concept of minban had different manifestations due to circumstances, a typical minban school was normally set up as a grassroots initiative with local funding to meet the needs of the local people (Deng, 1997, p.105). In recent years, the private higher education reemerged and developed rapidly especially in transition countries. Altbach (1999) attributed this recent prominence to the increasing demand for higher education and the inability or unwillingness of the public sector to act on it. China echoes the market dynamics and global demand actively, and, private even for-profit provision takes off recently.

### 2.4.1 Private Education in China

Private education constitutes a substantial part of education in China. In 2005, there were 86,200 private schools (education institutions) excluding 29,000 private training centers, enrolled students reached 21.681 million. Of these, private secondary vocational schools totaled at 2017 with 1.5414 million enrolled students and 149,100 non-formal students. In addition, private higher education institutions reached 1077 units with 1.0915 million enrolled students<sup>61</sup>.

As a matter of fact, private higher education went through an uneven path. After having been abolished in an earlier period, Chinese private higher

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<sup>61</sup> Available at: <http://www.allbusiness.com/services/business-services/4353263-1.html>

education reemerged in the late 1970s, but only with limited enrollment and a handful of private institution. Thanks to the reform and opening up, the number of private institutions had reached 1270 by 1999—outnumbering public institutions by three to four hundred. Enrollments in private institutions grew to over one million. Estimates on the private sector’s share of total enrollments have ranged from a fourth to even a third, although only about 40,000 of these students were in programs recognized by the Ministry of Education and thus permitted to grant bachelor’s or associate degrees (Wang, 2003).

## 2.4.2 Chinese “Edupreneurs”

The most intriguing and striking growth is not the higher education sector, where private institutions still suffer legal restraints and strict regulations, but active, viable and financially successful “Edupreneurs”. These private, for-profit education companies providing desirable and affordable educational products and services hatches a flourishing education and training industry.

As market dynamics and global demand promotes greatly “Edupreneurs” in China, three trends are remarkable:

- Chinese education and training industry is expanding and fractionizing.
- Chinese “Edupreneurs” pursue IPO<sup>62</sup> .
- Chinese “Edupreneurs” attract VC<sup>63</sup> injection.

### 2.4.2.1 Chinese Education & Training Industry

As China has the largest population in the world, the size of education is accordingly huge. There are 630,000 schools through all levels in 2006,

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<sup>62</sup> IPO, abbreviation for Initial Public Offerings.

<sup>63</sup> VC, abbreviation for Venture Capital.



enrolling 335,120,000 students of school age<sup>64</sup>. Statistics show that education outlay has exceeded other living outlays and has become the second family outlay item after food. The market, covering life-long education plan from kindergarten to higher education, vocational education, and employment training, is found in everyone, every family, and every company. With such a gigantic market, Chinese education & training industry size is deemed as a sunrise industry and one of the most potential markets. The industrial size is estimated at over RMB100B (Zheng, 2007). Still, as a service industry, education & training sector is in its infancy in China.

IT training, and English training are the largest segments in the training industry. China's IT training market, as a key supplement for non-diploma education, maintained fast growth in the past few years. Statistics from Report on China IT Education & Training Industry 2006-07 shows that the IT training is experiencing a new surge of growth, driven by the development of the software and Internet industries and increasing capital injection, see table 2-22.

Table 2-22 Market Scale and Growth Rate of China IT Training Industry, 2003-2006 (RMB100 million)

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Market capacity</b>	38.30	44.56	55.18	65.44
<b>Growth rate</b>	13.8%	16.3%	23.8%	18.6%

Source: CCIDC Consulting. 2007, 01.

In the meantime, competition in the English training market escalates and totals up RMB15 billion in terms of market value in 2007. Besides English, the language of Japanese and Korean are also popular (JLJ Group, 2006).

<sup>64</sup> Ministry of Education of the People's Republic of China. Available online at: <http://www.moe.gov.cn/edoas/website18/81/info33481.htm> (accessed on Jan. 19, 2009).

## 2.4.2.2 Listed Educational Companies

Capital markets have become increasingly integrated with education. On September 6, 2006, New Oriental Education & Technology Group Inc.<sup>65</sup>, the largest and most prestigious provider of private educational services in mainland China, made an IPO (Initial Public Offering) on the NASDAQ. New Oriental was the first private education company in China to be listed on the New York Stock Exchange. This fueled great attention and interest in the whole Chinese education system and the education and training industry. Since then, more and more Chinese educational companies go public or prepare to do it.

- Noah Education Holdings Limited raised US\$ 140 M in initial public offering (IPO for short) and listed in the New York Stock Exchange on October. 19. 2007<sup>66</sup>.
- ChinaEdu Corporation went IPO on December. 11. 2007<sup>67</sup>.
- ATA Inc. raised US\$46M and listed in NASDAQ on January. 29. 2008<sup>68</sup>.
- China Distance Education Holdings raised US\$61M in IPO and listed in the New York Stock Exchange on July. 30. 2008<sup>69</sup>.

Additional information of Chinese quoted companies is listed in the following table (see table 2-23).

Table 2-23 Quoted Chinese “Edupreneurs” (by the end of 2009)

<b>Company Name</b>	<b>Logo</b>	<b>Trading</b>	<b>Trading</b>	<b>Time</b>
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<sup>65</sup> [www.neworiental.org](http://www.neworiental.org)

<sup>66</sup> [www.noahtech.com.cn](http://www.noahtech.com.cn)

<sup>67</sup> [www.chinaedu.net](http://www.chinaedu.net)

<sup>68</sup> [www.ata.net.cn](http://www.ata.net.cn)

<sup>69</sup> [www.cdeledu.com](http://www.cdeledu.com)

		<b>Stock market</b>	<b>Code</b>	<b>of IPO</b>
New Oriental Education & Technology Group, Inc.		NYSE, USA	EDU	06-09-06
Noah Education Holdings Limited		NYSE, USA	NED	07-10-19
ChinaEdu Corporation		NASDAQ, USA	CEDU	07-12-11
ATA Inc.		NASDAQ, USA	ATAI	08-01-29
China Distance Education Holdings	Not available	NYSE, USA	CDEL	08-07-30

### 2.4.2.3 Venture Capital Injection

The output of schooling depends on, inter alia, the amount of financial resources invested into the education system (Egger, et.al., 2005, p.3). In China, capital investment is now an important contributor. Enormous amount of untapped market value has been invested in private education companies by venture capital firms and other investors, especially since 2006. The total private equity investment amount in Chinese education and training industry reached U.S \$92M in 2006 alone, and \$167 m. from January to October in 2007, according to statistics from China Venture. Zero2IPO Research Center noticed that the amount of venture capital investment in Chinese education & training industry reached US\$122M in a short period of two months. The deals are remarkable, including Macquarie Bank and other s investing US\$ 54M in Ambow Education Co. Ltd<sup>70</sup>, Qiming Venture Partners and SIG jointly investing

<sup>70</sup> [www.ambow.com.cn](http://www.ambow.com.cn)

US\$20M in Juren Education Group<sup>71</sup>, Carlyle investing US\$20M in New World Education Group<sup>72</sup>, SAIF investing US\$10M in Eduask<sup>73</sup>, and CDH investing US\$10M in 21 EDU, and Shenzhen Daxin Investment Company investing US\$8M in Beststudy<sup>74</sup>, as illustrated in table 2-24 (Zheng, 2007). And more and more Chinese private companies are ready to soak up investors' money. According to statistics from ChinaVenture<sup>75</sup>, there are 50 deals of investment by February, 2009, involving US\$586 Million. Moreover, instead of merely injecting capital, direct merger and acquisitions also take place a lot, see table 2-25.

In addition, there are other patterns of for-profit orientation in the education & training market. Like the department of digital art and design in school of software and microelectronics, Peking University<sup>76</sup>. It was established and managed by the cooperation between the Peking University and American-Asia Group, Canada, a for-profit company. This is an example of semi-enterprise-semi-school model in the higher education field. In a nutshell, with global prestigious education institutions surging into China and domestic powerful player pursuing further advancement, China's education & training industry will witness even more ferocious completion in the future.

In a nutshell, with global prestigious education institutions surging into China and domestic powerful player pursuing further advancement, China's education & training industry will witness even more ferocious completion in the future.

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<sup>71</sup> [www.juren.com](http://www.juren.com)

<sup>72</sup> <http://sz.newworldedu.org>

<sup>73</sup> <http://www.eduask.cn>

<sup>74</sup> [www.beststudy.net](http://www.beststudy.net)

<sup>75</sup> [www.chinaventure.com.cn](http://www.chinaventure.com.cn)

<sup>76</sup> <http://www.ss.pku.edu.cn/>

Table 2-24: Selected Investment Deals in Education & Training Industry in 2007

<b>Date</b>	<b>Investee Company (Location)</b>	<b>Investor, Amt. Invested (US\$M)</b>	<b>Main business</b>	<b>Predicted Listing Date (Y)</b>
<b>Sep.4</b>	New World Education (Shanghai)	Carlyle, 20	Language training	
<b>Sep.4</b>	Juren Education (Beijing)	Qiming Venture Partners and SIG, 20	Extracurricular tutorship for primary, middle and high schools	2010
<b>Sep.6</b>	Eduask (Beijing)	SAIF, 10	IT professional training	2009
<b>Oct.9</b>	Ambow Education (Beijing)	Macquarie Bank Group, CID Group, Cisco, and Avenue Capital, 54	Professional training	
<b>Oct.18</b>	21 EDU (Beijing)	CDH, 10	Personalized education for primary, middle, and high schools	2010
<b>Nov.5</b>	Beststudy (Guangzhou)	Shenzhen Daxin, 8	Extracurricular tutorship for primary, middle and high schools	

Source: Zero2IPO Research Center

Table 2-25 Merger and Acquisitions in education sector in China

<b>Time</b>	<b>Target Enterprise (China)</b>	<b>Investor</b>	<b>Nationality</b>
11.10.07	Oriental University City Development	Raffles Education	Singapur
04.09.07	NeWorld Education Group	Carlyle Group	USA
02.08.07	ACE Education Group	Kaplan	USA

Source: Thomson Financial

## CHAPTER -3

### THEORETICAL BACKGROUND

#### 3.1 Literature Review

Before 1990s, the literature on the for-profit sector was rare and limited. Only few articles appeared sporadically in educational Journals since the 1980s, focusing merely on these familiar topics: the ability of the students attending proprietary schools to pay for their education; the characteristics of the students; the lack of data on this sector; the reputation of for-profit schools within higher education; and the competition between these schools and the community colleges (Chipps, 2007, p.19).

But with the creation of for-profit colleges and universities, the interest in for-profit education exploded from the 1990s to date. *The Chronicle of Higher Education*, for instance, published 26 articles alone on this subject in just 1998 and 1999, then 24 articles appeared in the year 2000; 28 in 2001; 16 in 2002; and 23 in 2003. In contrast to the previous period's focus on vocational education, all of the articles between 1998 and 1999 in the *Chronicle* addressed for-profit colleges and universities that offered courses at both the undergraduate and graduate levels.

Articles and papers have also been published in the general press and other education-specific journals or publications. Scholars researched on for-profit charter schools (Dykgraaf & Lewis, 1998; Zollers & Ramanathan, 1998;), for-profit management of public schools (Pini, Monica Eva, 2001; Holloway, 2002), for-profit career colleges (Meers, 2002), for-profit orientation on business education (Bailey, et al., 1999; Johnson, 2005), for-profit education management companies (Molnar et al., 2004, 2006; Campbell, 2007), and more often than not, on for-profit providers of degrees and training

in higher education (Breneman, Pusser & Turner, 2000; Ehrenberg, 2000; Ortmann, 2001; Pusser, 2002; Pusser & Turner, 2002; Morey, 2004; Berg, 2005; Howard-Vital, 2006). They paid attention to the potential of for-profit expansion, chiefly focusing on factors of creating a for-profit entity (Goldstein, 2000), statistical analysis of students profile (Phipps, et al., 2000), price and subsidies (Hoxby, 1998a; Winston, Carbone & Lewis, 1998; Winston, 1999); technology (Newman & Courtier, 2001; Fabos, 2002); barriers to entry (Winston, 1999), legislation (Swenson, et al, 2005), assessment (Ediger, 2001; Hutchings, 2009), accreditation (Foster, 2004), and regulation (Harley & Lawrence, 2006).

Comparative studies have been made between for-profit and non-profit programs of childcare center (Mullis, Ann K. et. Al., 2003; Prentice, 2005; Cornille, et al., 2006), between for-profit and nonprofit management in schools (Peterson & Chingos, 2009), between for-profit and community colleges (Bailey, et al., 2001; Persell, C.H. & Wenglinsky, H., 2004; Liu, 2007), between for-profit and not-for-profit producers of higher education on production costs per unit of output (Laband, David N. & Lentz, Bernard F. , 2004), and on performance and quality (Amirkhanyan, et al., 2008). On the other hand, critiques and criticisms have never stopped accompanying the development of the for-profit sector, especially on education fraud (Morgan, 2007).

Official statistics can be found in documents of National Center for Education Statistics (NCES) of the United States (NCES, 2001; 2003a; 2005a; 2005b; 2005c; 2006; 2008a; 2008b; 2008c; 2008d; 2008e). These reports collect and summarize the most authoritative data on students profile (involving student enrollment, tuition and fee, financing;), instructional staff profile and salary, and degrees conferred in all types of postsecondary institutions in the U.S, including for-profit institutions. In addition, ESC



(Education Commission of the United States<sup>77</sup>) made a nation-wide inventory of for-profit institutions and stored a collection of publications for for-profit/proprietary, centering on for-profits' offerings, enrollment, ownership, and trends in accreditation and state regulation of for-profit colleges and universities (Brimah, T. 1999, 2000, Ewell, P., & Schild, P., 2000, Kelly, K.F., 2001a, 2001b).

Doctorate dissertations at American universities are also found centering on for-profit sector. Rutherford (2002) investigates how the University of Phoenix defines and implements a balance of academics and economics in curriculum and operations in his dissertation entitled “Academics and Economics: The Yin and Yang of For-Profit Higher Education: A Case Study of the University of Phoenix”, presented to the Faculty of the Graduate School of the University of Texas at Austin. Johnson (2003) investigates into the Economic Determinants of the Price of a For-Profit Education Stock. Brown (2005) examines how municipal services are privatized and how this model paves the way for for-profit in public school, explains the conditions, policy processes, and consequences leading to the emergence of for-profit management in San Francisco, Atlanta, and Boston, and conduct a cross-site analysis of EMOs emergence among these three urban sites in his dissertation entitled “For-profit Management of Public Schools: A Cross-Site Analysis of San Francisco, Atlanta, and Boston”, presented to the university of Virginia. Chipps (2007) conducts a descriptive study using a 30-item questionnaire in order to examine the extent of research and teaching on higher education programs in the United States that focuses on for-profit higher education.

Literature from other parts of the world tends to be limited. Germany (or rather Western Europe), for example, has always been an exceptional case of avoiding the for-profit surge so far, (Kinser, Kevin and Levy, D.C., 2005), thus found rare interest and effort in this topic. Still, Spöttl (2000) considers for-profit

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<sup>77</sup> <http://www.ecs.org/>

school as one of the selected models to privatize or partially privatize schools. Maibauer (2006) attempts to discuss the concept “educational entrepreneurship” and whether or not the model of Charter School could be implemented in Germany, in order to facilitate a cost-effective operation in schools. In addition to pure academic interest, for-profits also aroused interest in various business communities, such as consulting companies. Savelberg (2008) from Koeln reports merger and acquisition in education services sector and depicts the investors' mounting interest in this promising branch.

Similarly, for-profit education is a poorly defined and understudied territory in China. There has been little interest in the topic and few studies have been conducted or articles published, until at the beginning of this century.

In 2000 Zhao raised the question as to whether education should be for-profit? Wang (2002) introduced to Chinese academic literature the development experience accumulated by for-profit educational companies around the world and pointed out that China also needs Edupreneurs; asserting that they would play a positive role in adding educational investment, promote educational competition and enhance education choices.

Wu (2003) depicted the for-profit sector in the American higher education, and analyzed the financial status of selected for-profit educational institution. He then suggested different modes designed to facilitate cooperation between private higher education and capital markets. Wen, S. Y. (2005) reviewed the history of the emergence of U.S. for-profit educational institutions. Wang (2006) reported that the notion of higher education marketization in the U.S. lay in fostering the autonomy, competition, exchange, to the benefit of the institutions. And the rise of for-profits manifested a “customer-centered” orientation and an innovative approach of service. Gao (2006) made an in-depth study on the property rights of for-profit private higher education institutions, taking seven for-profits as examples, including the Apollo Group, Career Education, Collins Institute, DeVry, ITT, Education Management Company and so on.

Globally, some studies on the issue of for-profit education were conducted by academic research institutes and by governments, but not very many (Guthrie, et al., 2004[Australia]; Tooley, 2007 [India] ). Even though the for-profit theme has hitherto not been a hot topic in the educational research, nonetheless, studies and articles are projected to accumulate, as the for-profit industry keeps on expanding.

## 3.2 Discourses

Heated debates over the attributes of education and the impact of new trends in the educational arena have not ceased since the emergence of for-profit education. The discourses elaborated here demonstrate the arguments in favor of or against the for-profit sector, and they represent the evolution of educational ideology in this dramatically changing educational environment .

### 3.2.1 Education is a public good?!

Should the private sector profit from education? Should educational services be provided by for-profit institutions?, These are the sticking points for this hot topic. The key to answering these questions involves an analysis on the attributes of education.

Education is widely considered as a singularly important public good (Hershock, et.al, 2008), knowledge is also included in this category (Marginson, 2007). The university is also a public good (Cantor, 2004), since "higher education's relationship with and contribution to the public good emerged as a trend in the higher education literature in 1996" (Kezar, 1999). Therefore the fact that public goods are normally provided by government agencies and

administrative organizations calls into question the legitimacy of for-profit education. On the other hand, a number of educators no longer conceive of higher education as a public good. Instead, the university is thought of as providing private goods "serving the needs of individuals" (Altbach, 2005, p.23), which is why "a private, profit-making university may provide the most efficient service" (Chopp et al., 2007, p.1). Interestingly enough, some scholars argue that education ought to be defended as a public good and as a private good (Aronowitz & Giroux, 1993; Aronowitz, 2000;). The question at the heart is what on earth does public good mean?

Tierney (2006) believes that the public good is an ideology and a belief system about how things get done and wonders whether or not the "public" providers of those services differ from those in the private sector. But the term "public good" does not necessarily refer to its supplier, be it public, private or a non-profit organization. It includes inter alia: "pure public goods, quasi-public goods, local public goods, common property goods, club goods and codified information products" (Hämäläinen, 2003, p.182).

Pure public good as an article of economic jargon is characterized by:

- I . Non-rivalry: they should not be rationed because their marginal cost of supply is zero;
- II . Non-excludability: they cannot be rationed to exclude free riders (Stiglitz, 1988).

Non-rivalry, or nonrivalness means that "if the good accrues to one person, it does not subtract from that available to the others", while non-excludability is known as "the technical inability to price to individuals" (Kiesling, 1990, p.138). In other words, pure public goods are "goods to which no property rights can be established" and which are available to all irrespective of contribution; while pure private goods are "goods with individual property rights", and their

production, exchange, and consumption generates no externalities <sup>78</sup> (Anheier, 2005, p.117). Pure public goods like national defense benefit all members of society equally. But few public goods meet both of these characteristics. Most of them, which only one of the characteristics is present, are called quasi-public goods, as seen in table 3-1 (UNIDO<sup>79</sup>, 2008, p.8).

Table 3-1: The characteristics and typology of public goods

Benefits	Rival	Partially rival	Non-rival
Excludable	<b>Pure private goods</b> Food Cars, fuel	<b>Club goods</b> Intelsat International Space Station Canals, waterways	Weather-monitoring stations
Non-excludable	<b>Common goods</b> Free access pasture Open pathways Hunting grounds Air corridors	<b>Impure public goods</b> Ocean fisheries Pest control	<b>Pure public goods</b> Pollution-control Disease-eradication programs Strategic weapons Sound financial practices Basic research
Partially excludable	<b>Impure public goods</b> Information dissemination Extension services		

Since the excludability and rivalry are often a matter of degree, quasi-public

<sup>78</sup> Externalities: transmission of infection from donor to recipient in a market situation can yield “negative” externalities, and others not party to the initial blood transaction might get infected. Externalities exist when either a benefit or a cost is not directly accounted for by the market price but passed on to third parties. Air pollution is an example of a negative externality, as the sales price of a car does not include the car’s lifetime contribution to lowering air quality. A private arboretum in a densely populated urban area would be an example of a positive externality, as the costs for maintaining the park would be borne by the owner but the fresher, cleaner air would benefit a much wider group of residents in the area.

<sup>79</sup> United Nations Industrial Development Organization.

good is hence a general term for a mixture of private and pure public goods, involving some marginal costs for adding new consumers. There are a series of variation of a quasi-public good. Common property goods do not involve private property rights but may provide benefits to their consumers. However, they may require considerable investment. Club goods are often provided in closed premises such as country clubs. Impure public goods, also codified (digitized) information products have low marginal costs of production and can be rationed to some degree (Hämäläinen, 2003, p.183; UNIDO, 2008, p.8).

In addition, Porter (1998, p.218) suggests that the public goods may better be termed quasi-public goods, because accessing them involves transaction costs<sup>80</sup>. He further explains:

*Some of the public or quasi-public goods available are closely linked to government and to public institutions. Public investment ... that benefit a cluster is encouraged by the number and visibility of cluster participants and by the number of firms likely to experience spillover benefits from such investment. Other quasi-public goods ... arise as natural by-products of competition. ...In addition, public or quasi-public goods ... often result from private investments in training programs, infrastructure, quality centers, and so on. While public goods are associated with public institutions, they may also arise in private or partially private institutions ... such private investments are common because cluster participants perceive the potential for collective benefits.*

In other words, though provision of pure public goods generally fall on the shoulder of the government and its agencies, the supply of quasi-public goods

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<sup>80</sup> Transaction costs, i.e. the costs of exchange, doing business, and contracting. Economists have argued, consumer trust in the assumed quality of the good or service can reduce transaction costs under conditions of information asymmetry.

is complex. When it comes to education arena, public benefits require that each person receiving “a minimum amount of schooling of a specified kind”, according to Friedman (1962). He continues to argue, as the writing in the article appeared in the Washington Post on February 19, 1995:

*In my view, such a radical reconstruction can be achieved only by privatizing a major segment of the educational system--i.e., by enabling a private, for-profit industry to develop that will provide a wide variety of learning opportunities and offer effective competition to public schools.*

Therefore, the provision of public goods may also be handled through market forces, in addition to non-profit approaches, as illustrated in table 3-2 by the author.

Table 3-2: Types of goods and providers

	<b>Private goods</b>	<b>Quasi-public goods</b>	<b>Public goods</b>
<b>Markets/ for-profit provision</b>	Yes	Yes	No, due to market failure <sup>81</sup>
<b>State/ public sector provision</b>	No, due to government failure <sup>82</sup>	yes	yes

<sup>81</sup> Market failure is characterized by a lack of perfect competition, where markets fail to efficiently allocate or provide goods and services. Market failure occurs when the behavior of agents, acting to optimize their utility, cannot reach a Pareto optimal allocation. Sources of market failures include: monopoly, externality, and asymmetrical information.

<sup>82</sup> Government failure is a situation in which a service or social problem cannot be addressed by government. Government failure occurs when the behavior of agents, acting to optimize their utility in a market regulated by government, cannot reach a Pareto

As for educational services, the cost for consumer is inevitable, and excluding others from using tends to be easy, which means the free riders are not inevitable. Thus, education per se is aptly deemed as a “quasi-public good” as it is neither pure public goods nor is it a pure private good, taking the externalities of education, information asymmetry into consideration. Education stands at the intersection of private interest and public interest. Just as Altbach (2004) put, "while it is not possible to fully analyse the nuances of the public vs. Private good arguments here, it is clear that an effective higher education system will recognize that both are part of the academic equation"(p.24).

In a nutshell, it's clear that the prevailing affirmation that education is public good could not hold water nowadays. As a matter of fact, similar to other commodities and services, the attribute of education depends heavily on the way of provision. Education can either be a public good if the government implements compulsive education and provides the masses with certain educational products for free, or be private good, if it's provided by the market with which tuitions and fees are considered as the cost or the prerequisite. Take the provision of post-secondary education for example. According to OECD (2002), new providers of post-secondary education and training services have already played a role, like the corporate training facilities, virtual universities, public-private-partnership, and above all, for-profit institutions and for-profit arms of traditional universities.

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optimal allocation. Sources of market failures include private information among agents.



### 3.2.2 Education is commodity in educational market!?

"Education has always been a commodity: It has always been possible for those with money to purchase education or instruction for themselves, their children or their protégés. For centuries, royalty and other landed families have regularly employed tutors to educate their children, as did wealthy Ancients before" (Kaye et al., 2006, p.87). Yet, it is not until the mass education taking shape and the establishment of commodity and market economies do the consumerism and commodification of education--particularly of higher education--gain so much extent as well as controversies.

Discussions on the nature of education have encouraged multiple providers to enter the education market, which lead to an increase in private financial investment in education. A market is where providers of a good and service meet those who wish to acquire that good or service (Adnett & Davies, 2002, p.6). Accordingly, an education market is where providers of educational goods and services meet those who wish to acquire that good or service. The ultimate function of an educational system is to create an environment which induces people to make socially optimal investment decisions. According to Mok (2001, p.90), the adoption of market-oriented approach in running education would yield the following consequences:

- Adoption of the fee-paying principle in education
- Reduction in state provision, subsidy and regulation
- Popularity of revenue-generating activities
- Market-driven courses and curricula
- Emphasis on parental choice
- Managerial approach in educational administration and management.

These forms of marketization or consequences of marketization in education are assumed to make educational services more efficient and effective, and to

yield a profit at the same time.

Following the Uruguay Round of the World Trade Organization 1995, the General Agreement on Trade in Services (GATS)<sup>83</sup> also take education as a profit opportunity, and European Union (EU) has added higher education as consumption abroad in its ratification of GATS (Kaye, Tim et al., 2006). In May 2000, the event "World Education Market" attracted 3000 participants, 100 speakers, and 458 exhibits. This conference described the education a new industry within the global marketplace (Molnar, 2006, p.23). The marketplace for trade in education services is big, diverse, innovative and growing fast (Sauve, 2001, p.12). It will almost certainly continue to grow as societies place an increased premium on human capital enhancement as a source of development and as means of better equipping individuals and societies to confront (ibid., p.4).

At this market, education is for sale--it is a commodity to be bought and sold. Altbach (2002) concludes that education and knowledge are international commodities, for some private revenues of higher education are obviously economically easily computable, such as enhanced income, protection against unemployment, etc. and the higher education supply and demand is going international and global. The commodity nature of education has also been confirmed by the United Nations Provisional Central Product Classification in which class 925 is "Tertiary education services" (UN, 2006<sup>84</sup>), see table 3-3.

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<sup>83</sup> General Agreement on Trade in Services. The GATS consists of 3 core components. The first is a framework of rules that lays out the general obligations governing trade in services, which it does in much the same way as the GATT does for trade in goods. It provides for disciplines on transparency (of considerable importance given the regulatory density of services trade), most-favored-nation (MFN) treatment, market access, and national treatment. The framework is still incomplete and rule-making efforts on certain issues, such as emergency safeguards, subsidies, government procurement and on domestic regulation, are still underway. Second, it includes annexes on specific services sectors (air transport, financial services, maritime transport, and telecommunications) as well as the movement of natural persons. The third element consists of the schedules of commitments detailing the liberalization commitments of each WTO member.

<sup>84</sup> Available online at: <http://unstats.un.org/unsd/cr/registry/regct.asp?Lg=1>.

Table 3-3 United Nations Provisional Central Product Classification (CPC)  
Version 1.1, Division 92 Education services

Group	Class	Subclasses	Title
921			Pre-primary education services
	9210	92100	Pre-primary education services
922			Primary education services
	9221	92200	Preschool education services
923			Secondary education services
	9231	92310	Lower secondary education services, general
	9232	92320	Lower secondary education services, technical and vocational
	9233	92330	Upper secondary education services, general
	9234	92340	Upper secondary education services, technical and vocational
924			Post-secondary non-tertiary education services
	9241	92410	Post-secondary non-tertiary education services, general
	9242	92420	Post-secondary non-tertiary education service, technical and vocational
925			Tertiary education services
	9251	92510	First stage tertiary education services
	9252	92520	Second stage tertiary education services
929			Other education and training services and educational support services
	9291		Other education and training services
		92911	Cultural education services
		92912	Sports and recreation education services

	92919	Other education and training services, n.e.c.
9292	92920	Educational support services

Education as a commodity means that educational products are offered by competitive providers, that educational services are priced, and that the access to them relies on consumer's calculations and their purchasing ability. . The products and services of schooling are the skills and knowledge acquired, symbolized to some degree by degrees, certificates, or diplomas. Scholars who consider educational service products and activities as commodities maintain that the existence of the education marketplace is buildt upon the exchange between educational service products and other sectors during the process of educational consumption. "And since money is the ultimate arbiter of the value of any given commodity, then education becomes a precious commodity in terms of its perching power" (Craig, 2000, p.20). Jin (1999) explains that the commodity nature of educational products involve services instead of material objects and these services thereby increases the the skill set of the buyer, as well as provide revenue for the seller. As a result, educational provision becomes a market, in which educational institutions tend to restructure in accordance with business principles and practices, and market their academic product in the commercial world. That is why ISO 9000 standards in the international exchange of goods and services have been suggested for wgobal adoption, because they serve as ways of the certification for the delivery of intellectual commodities. Total quality management (TQM), featuring participative management, customer needs analysis, has also been applied to education.

As Cooper illustrates, higher education in the UK is enhanced by the commodification of learning, and by the concept that higher education is operating within a competitive marketplace, refelcted in the price and reputation of the service provider as well as other factors (2007). The same

can also be said in India, in Australian, and in USA (Popli, 2005; Coates, 2005; Thacker, 2005).

However, as Aliff (1998) points out, mis-comprehension and mis-application of TQM and other market-driven business metaphors can have negative consequences:

- the tendency to regard students as passive recipients of a commodity rather than active learners;
- the potential that faculty will pander to students' desires for material that is instantaneously stimulating and ready to understand;
- the disappearance of the "Socratic Method" in instruction--teaching through questioning and confrontation;
- confusion and conflict regarding students' "wants" and "needs"--immature students will have too much influence in determining the content and methods of instruction delivery;
- the diminishing of the value of professional expertise in surrender to an anti-authoritarian consumerism
- Conflict between the roles of students as "internal customers" and as "internal and external products"--as empowered internal customers, students may effect the decline of their value as internal products passed to a higher level of study, or as external products passed to an employer
- the decline of specific scholarship areas, or the disciplined discovery and reinterpretation of knowledge that have little commercial value
- the potential death of liberal arts education (p.4)

Right now, some influential national and regional authorities have taken a critical stand towards the trade in educational services and GATS, for instance: the European University Association (EUA), the National Union of Students in Europe (ESIB), and American university organizations (Nyborg, 2003).

### 3.2.3 Education is a business operation!?

Much of the current higher education literature is steeped in the tie between business/industry and higher education, and the role of higher education for economic development. Though scholars like Hofstadter & Hardy (1952) intend to preserve the distinction between higher education and business and to prevent the threat to education from corporate values. Nonetheless, the transition from “a business agenda for schools” to “an agenda for business in schools” symbolizes a changing philosophy on the relationship between education and business.

“A business agenda for schools” refers to “what business wants schools to do” while “an agenda for business in schools” correlates with “what business itself wants to do in schools” (Hatcher, 2000, p.2). The former reflects the call for reforms in schools to meet employers’ needs of qualified workforce. The latter reveals the growing interests from private companies and capital market thus acute commercial penetration in education aiming at opening up the school system to private provision for profit.

Commercialization in schools takes three basic forms: "selling to schools" (vending), "selling in schools" (advertising and public relations), and "selling of schools" (privatization) (Molnar, A., 2005, p.7), for instance, the orientation of courses, diplomas and course contents towards the market; the elimination of academic disciplines, topics and research subjects that are not market-compatible; the introduction of performance-related pay for university staff; the setting up of access restrictions to the internet by technical means and the submission of content development to the increasingly strict regulations of intellectual property rights; and the elevation of successful operation on the global education market (Lohmann, 2004; Altbach, 2005). Other entrepreneurial activities include "the sale of faculty services, the sale or lease of university facilities, the vigorous pursuit of grants and contracts, and

fund raising from alumni, corporations, and friends"(Johnstone, 2003, p.353).

Proponents of business model in education hold that the traditional idea of higher education as a social institution has moved toward a view of higher education as an industry (Gumport, 2000) and investigate the borrowing and use of principles of for-profit business in higher education (Rodgers, 2005). As Jin (1999) justifies, education, especially high-quality education, as a comparatively rare social resource, generate profits when individuals and groups attempt to purchase and utilize, which results in an increase of overall investment in education and constitutes a positive supplement to insufficient governmental investment.

From the angle of economic rationality, for-profit institutions focus on students as customers, and provide services for them that minimize the bureaucracy and maximize the benefits by preparing them for competition in the job market or rather in a free market scenario. That's why businessmen are flocking to education, bringing with them a flood of dollars and turning the \$700 billion education sector from a large portions of a fragmented, cottage industry of independent, nonprofit institutions into a consolidated, professionally managed, money-making set of businesses that include all levels of education (Wyatt, 1999, New York Times<sup>85</sup>). Goldstein (2000) lists factors influencing the decision to create a for-profit entity (p.26), see table 3-4.

In addition, trade in higher education is a billion dollar business both the demand-side and the supply-side are growing. Trade in educational services involves recruitment of international students, establishment of university campuses abroad, franchised provision and online learning. However, the business of education is tough, because "education is characterized by multiple goals and authorities with constant shifts in relative importance of each as political, demographic, and social trends intervene" (Belfield & Levin,

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<sup>85</sup> Available online at:  
<http://query.nytimes.com/gst/fullpage.html?res=9B02E1D9113BF937A35752C1A96F958260>

2006, p.166). To put it another way, education has to be regulated, monitored, and subject to various stakeholders' values and layers of government funding.

Table 3-4 Factors influencing the decision to create a for-profit entity

		<b>Non-profit</b>	<b>For-profit</b>
Economic Issues:			
	Raise capital by selling equity		×
	Capital appreciation		×
	Receive charitable contributions and grants	×	
	Generate an operating surplus	×	×
	Pay employees royalties on intellectual property	×	×
	Provide employees with performance bonuses	×	×
	Provide employees with stock ownership		×
	Pay board members (cash and/or stock)		×
	Distribute profit among owners		×
	Pay taxes	*	×
Operational issues:			
	Establish independent agreements for intellectual property	×	×
	Operate independently of institutional policies	×	×
	Create a "firewall" between the institution and the activity	×	×
	Enter into contracts for services	×	×
	Compete on a "level playing field" with taxable entities		×

\* Note: "Unrelated business income" of a tax-exempt nonprofit entity is generally taxable at the standard corporate tax rate.



Opponents worry about the cons of corporatization, for problems arise from the adoption of business models in higher education. According to Jones (2008), the major concerns of community college regarding corporatization are: the use of contingent faculty, the emphasis on outcomes assessment initiatives, the excessive demand for accountability, the application of the "student as customer" model and the conflict between corporatization and faculty governance. .

Another example is the influence of corporate culture on academic research. Strapped for cash and needed resources, academic research at a number of universities knuckles under to the dictates of their sponsors. For example, the University of California at Berkeley in exchange for a \$25million grant from Novartis, a Swiss pharmaceutical corporation and producer of genetically engineered crops, gave "the right to negotiate licenses on roughly a third of the department's discoveries--including the results of research funded by state and federal sources as well as by Novartis", and corporate representatives were actually appointed to the department's faculty committees which determined the allocation of research funds in 1998 (Press & Washburn, 2000, p.40).

Moreover, some academics hold stocks or other financial incentives from their sponsors, indicating a sellout to corporate bidders. Even worse, academic freedom is being encroached upon as corporations interfere and censor research designs and results in order to serve their business interests and commercial needs. According to a couple of studies published in the *Annals of Internal Medicine* and the *Journal of the American Medical Association*, "98 percent of papers based on industry-sponsored research reflected favorably on the drugs being examined, as compared with 79 percent of papers based on research not funded by industry", and "studies of cancer drugs funded by pharmaceutical companies were roughly one eighth as likely to reach unfavorable conclusions as nonprofit-funded studies" (ibid., p.46).

Craig (2000) thus argues, "our lives, both personal and collective, would

be greatly impoverished if it were not for the university as an alternative institutional setting for the transmission and critical analysis of human culture, a distinctive voice as to the nature of the body politic, a challenge to our moral imagination, and a questioning and expansion of the boundaries of scientific and intellectual knowledge" (p.26).

### 3.3 Momentum

The emergence and growth of for-profit education worldwide can be attributed to a series of historical forces or momentums, involving increased internationalization in the higher education area and the emergence of cross-border higher education (also called borderless, transnational higher education); globalization and global attraction and borrowing education policies; emergent governmental devolution vis-à-vis privatization of its historical functions and commercial influences on school reforms; and a globalizing knowledge economy with requirements for a highly skilled work force urging a life-long education and learning approach.

#### 3.3.1 Internationalization and Globalization

"Internationalization" and "Globalization" are key words in higher education research since 1990s, challenging "the predominance of the nation state as the main determinant of the character of universities and colleges, and of the experiences of their students, their graduates and those who work in them" (Enders, 2004, p.361). The term internationalization refers to the process of integrating an international dimension into the teaching, research and service functions of higher education institutions (Knight, 1999).

Another related on-going and often-contested phenomenon is globalization. Numerous books and articles have appeared to ponder the definitions, mull the motivations, and debate the effects of this phenomenon. Yet, there is no agreement whatsoever reached in literature, nor unanimity about the concrete content and the causes as well as consequences of this globalizing phenomenon (Kock, 2006, p.27). What is certain is that the current globalization-processes differentiate between various levels: the economic, financial, technological, ecological, political-military, social, and the cultural

level (Wunderlich, 2008, p.45). Jangling discord as it were, characteristics of globalization are widely understood:

- The opening of the markets
- Migration
- Decentralization of knowledge
- The civic society (Kock, 2006, pp.31-35)

First of all, the opening of the markets refers to the unrestricted flow of capital, trade and investment, the growing concentration of economic resources and power. Second, current migration movements indicate that nearly all countries in the world have become destination countries for migrants unlike previously narrow streams of migration patterns in contemporary history.

Next, the new communication medias are creating new practices which combine individualization with universalism, e.g: the Internet as the habitat of the global village. At the same time, there is the exclusion of all those who are not connected to the net. And civic society, or basically a self-regulated social space of citizens' involvement, is based on the state and the economy as well as the privacy of the individual .

As to the interaction between globalization and education, the amount of pertinent literature is relatively small (ibid. p.36), compared to that on economic or financial subjects. Of the various implications of globalization for higher education, a fundamental one is the "partial disembedding" of higher education institutions (HEIs) in terms of funding, offshore operation, and accreditation (Marginson, 2007).

Currently, higher education institutions seek research funding from extra-national sources and generate revenues from charging both indigenous and foreign students. It is also common that higher education institutions seek jurisdiction and accreditation of another nations for their offshore operation which result in increasing "autonomy of higher education institutions vis-à-vis government" (ibid., p39), because global activities transcend the regulatory

space of national government.

A second implication of globalization for higher education is the "potential for universities to produce global private and global public goods" (ibid., p.40). Global private goods involve commercial research crossing borders and degrees obtained in the producing and purchasing cross-border higher education, which is projected to be about USD 40 billion per annum globally. Global public goods refers to both positive global externalities and negative global externalities. "Global externalities arise when educational services in one country affects a significant number of people in other countries. For example, the positive contribution of research flowing across national borders; or negatively, the net "brain drain" of national faculty" (ibid., p.40). Some of the remarkable phenomena growing out of internationalization and globalization are elaborated as follows:

## Cross-Border Higher Education

In July 2004, OECD released a book devoted to the key trends and issues in cross-border, post-secondary education entitled, *Internationalization and Trade in Higher Education: Opportunities and Challenges*. Since then, the terminology "internationalization" and "cross-border education" are used somewhat interchangeably .

The clearest beneficiaries of this seemingly all-pervasive phenomenon are students, for the internationalization of education is clearly demonstrated by high student mobility—international students who travelled to a country different from their own for the purpose of tertiary study. In 2004, 2.7 million tertiary students were enrolled outside their country of citizenship. The United States, the United Kingdom, Germany, and France receive more than 50% of all foreign students worldwide (OECD, 2006, p.283). Student mobility<sup>86</sup> as an

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<sup>86</sup> The terminology "international student" refers to student mobility, while "foreign student"

educational indicator represents the significance of internationalization of tertiary education. It highlights the major destinations of international students and shows the trends in market shares on the international education market. Generally speaking, student mobility has been policy-driven in hosting countries and demand-driven in sending countries. Table 3-5 (Henning, 2007, p.14) highlights sending countries and students' choice of a destination of study. Student from China is the largest group of international students, followed by India.

Table3-5 Global Students Mobility

Incoming Outgoing	USA	U.K	Germany	Australia	France	Japan	Others	Sum
China	63211	17483	14070	17343	5477	41180	...	181680
India	66836	6016	2196	9539	309	199	...	87987
South Korea	49046	2322	5153	1935	1785	18899	...	83949
Japan	46810	5741	2317	3271	1483	0	...	62761
Germany	9613	12530	0	2049	5276	263	...	56610
France	7401	12135	6625	610	0	216	...	50619
Others	...	...	...	...	...	...	...	1176956
Sum	582992	227273	219039	179619	165437	74892	...	1889989

Source: OECD Education Online Database

relates to non citizens enrolled in a country, including some permanent residents.

There are two distinct logics of internationalization in education: a culture-driven and a trade-driven approach. Apart from student mobility, "academia are crossing border" and has become increasingly transnational in both consumption and provision (OECD 2004, p.295). The cross-border electronic delivery of flexible educational programs and campuses abroad also emerges. Education is becoming an export industry. Faculty and students with diverse background bring about comprehensive cultural and educational perspectives. The diversified academic community would certainly enhance communication among them. For individuals, the long-term return of an international educational experience is so far cherished by labor markets, for students learn more about other cultures, political systems, religions and so forth, they advance their knowledge and deepen their understanding about humanity and the world. For the educational institutions, the presence of a culturally and linguistically diverse student body contributes to the development of a highly reactive, client-driven quality tertiary education. In addition, the international enrolments add financial resources of the host institutions (OECD, 2006, pp.284-285).

## Bologna process

Another case in point for internationalism is the Sorbonne--Bologna--Prague process aimed at realizing a European Higher Education Area where inter-country mobility of students, teachers, researchers and administrative staff, as well as degree holders, is facilitated, which leads to a more compatible, comparable, competitive and attractive form of European higher education (Froment, 2003; Berlin conference of European higher education ministers, 2004). The Bologna process is a far-reaching reform, involving currently 45 countries. Major objectives include:

- the creation of a system for readable and comparable academic degrees;

- the adoption of a academic structure based on two main cycles, undergraduate and graduate--the first-cycle studies last a minimum of three years leading to the bachelor degree and the second leads to the master's and/or doctorate degree;
- the establishment of a mutual recognition system for accumulating and transferring course units and credits, in order to impel geographical mobility of students and staff;
- the promotion of cooperation of European countries in quality assurance and assessment, as to assess the academic institutions and programs based on common quality standards;
- The promotion of European dimensions in higher education, such as the development of partnerships and joint degrees between institutions around Europe...

As a result, Germany's universities offered 749 Bachelor's study programs (485 of them at universities and 259 at universities of applied sciences) and 886 Master's study programs (554 at universities and 325 at universities of applied sciences) in the summer semester 2003. The enrollment of European university exchange program ERASMUS-SOCRATES is also in rise (Froment, 2003; OH, 2008). At the same time, international organizations like OECD, WTO, and WB, functioning in diverse facets of internationalization, have gained more and more attention and sway. (Purser, 2002; Froment, 2003; Nyborg, 2003; Rauhvargers, 2004; Karran, 2005; Cardoso, 2007; Gérard, 2007).



## Educational Policy Borrowing

Another debate of globalization in the education arena concerns deep questions about "educational transfer" (Rappleye, 2008, p.14), a phenomenon more commonly referred to as policy borrowing. David Phillips and Kimberly Ochs at the University of Oxford developed a new model of Four Stages of Policy Borrowing (Ochs & Phillips, 2002) to analyzing the complex processes in the educational borrowing. These stages include cross-national attraction, decision, implementation, and internalization or indigenization. Researchers also provide examples of each category of stimulus or catalyst that sparks off the cross-national attraction (Phillips, 2004):

*--Political change [post-apartheid South Africa]*

*--Systemic collapse to varying degrees [Eastern Europe]*

*--Internal dissatisfaction [Sputnik]*

*--Negative external evaluation [German 'PISA-Shock']*

*--New Configurations or alliances, whether planned [European Union]  
or not [globalizing forces]*

*--Knowledge and skills innovation [new technologies]*

*--The aftermath of extreme upheaval [war, natural disaster].*

(ibid., p.55)

Policy borrowing and lending will gradually lead to a universalized educational system in the world community. By all means, globalization uncovers "tensions and limitations that have been present in established systems of schooling" (Osborn, et al, 2003, p.226).

### 3.3.2 Privatization

Educational privatization has emerged as a central topic of educational policy in most industrialized countries of the world from the last century, along with the debate over what is the best way for a society to provide basic schooling for its youth. Stimulating privatization has usually been "a financial argument", for "it is cheaper for the State to finance a private establishment which offers free education than to finance a public establishment" (Tedesco, 1997, p.89).

In the U.S., free-market advocates believe that the discipline of the marketplace will provide choice and competition that the existing system lacks, which ensure greater parental freedom and more efficient use of resources consequently. Proponents of privatization, who are unsatisfied with the performance of public schools dominant system, further argue that "a government-funded system of private schools can be more effective, efficient, and equitable" (Belfield & Levin, 2006, p.1).

Educational privatization influences key dimensions of school sponsorship, governance, funding, production, and outcomes in all types of schooling, such home-schooling, private schools or independent schools, charter schools, and public schools (ibid., p. 3-5). Belfield and Levin (2006) thus summarize a framework for public and private involvement of dimensions and types of schooling , see Table 3-6 (Belfield & Levin, 2006).

Typical forms of privatization in the U.S. include educational vouchers, tuition tax credits, educational contracting and so on.

Table 3-6: A Framework for Considering Public and Private Dimensions of Elementary and Secondary Schooling

	<b>Home-Schooling</b>	<b>Private</b>	<b>Charter Schools</b>	<b>Public Schools</b>
<b>Sponsorship</b>	<b>Private</b>	<b>Private</b>	Public and <b>private</b>	Public
<b>Governance</b>	Public and <b>private</b>	Public and <b>private</b>	Public and <b>private</b>	Public and <b>private</b>
<b>Funding</b>	Mostly <b>private</b>	Mostly <b>private</b>	Mostly public	Mostly public
<b>Production</b>	<b>Private</b>	Mostly <b>private</b>	Public and <b>private</b>	Mostly public
<b>Outcomes</b>	Mostly <b>private</b>	Mixed	Mixed	Mixed

## Voucher

In 1990, the first formal voucher program for K-12 schooling was established known as the Milwaukee Parental Choice Program. The second of the existing voucher plans was adopted known as the Cleveland Scholarship and Tutoring Program in 1995. In these plans, public schools students can obtain a voucher to attend private schools. In June 2002, The U.S. Supreme Court ruled that vouchers do not violate the Establishment Clause of the U.S. Constitution (Belfield & Levin, 2006). And then private voucher plans come into being in many cities with funds being provided by private entities: The Children's Scholarship Fund in New York city provided more than \$ 100 million to over 40,000 students for private scholarships, mainly to Roman Catholic schools (Levin, 2004). As an alternative for financing and organizing the educational system, educational voucher fueled heated policy debates. Levin (2001) developed a comprehensive framework incorporating four criteria as to evaluate specific educational voucher plans and compare them to other

alternatives such as charter schools or traditional public school arrangement:

- Freedom of choice—the freedom of families to choose the kind of school that emulates their values, educational philosophies, religious teachings, and political outlooks
- Productive efficiency—based upon the notion that market competition among schools for students will create strong incentives, not only to meet student needs, but to improve educational productivity.
- Equity—contrary to creating greater inequity in the distribution of educational resources, opportunities, and results by gender, social class, race, language origin, and geographical location of students, the ability to choose schools will open up possibilities for are locked into inferior neighborhood schools.
- Social cohesion—providing a common educational experience that will orient all students to grow to adulthood as full participants in the social political and economic institution.

## Tuition Tax Credit (TTC)

Tax policies are a way of government assisting college students, their families as well as colleges and universities in the U.S., involving a number of exclusions, exemptions, credits, and deductions (Altbach, et.al, 2005, p.189). In the early 1970s, a combination of tuition tax credit bills including parents of children in private and religious elementary and secondary schools were introduced in the Congress (Hunt, et.al., 1997, p.170). TTC is an alternative way of encouraging a private educational marketplace. A TTC provides a reduction in tax burden equal to a portion of tuition paid to a private school. A tax credit is different from a tax deduction. Tax deduction is that some states allow a portion of tuition to be deducted from income in computing tax, which only reduces the tax burden by the tax rate on the allowable deduction rather

than providing a reduction in the tax burden of that amount. The TTC reduces the effective tuition cost to those who with children in private school, thus increasing the demand for private enrollment (Levin & Belfield, 2003, p.9).

## Charter Schools

Charter schools are semi-autonomous public schools, founded by educators, parents, community groups or private organizations that operate under a contract with a state or agency of the state<sup>87</sup>. The basic idea of charter schools is that some agency applies to the state to receive a charter to operate as a school at public expense. The governmental relationship would be directly between the charter school and the state agency responsible for granting charters, which would allow the charter school to operate outside the control of the educational bureaucracy of the state and the local school-board (Spring, 2002, p.190). According to the Center for Educational Reform<sup>88</sup>, there were 4,478 charter schools around the state, enrolling over a million students now, nearly double compared to that of 2002<sup>89</sup>. Furthermore, many of the charter schools contract with EMOs to operate their school. Charter schools contain features of choice and competition in a marketplace, though they are not components of a private marketplace. In addition, charter schools represent a freedom from government intrusion (Levin & Belfield, 2003, p.10).

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<sup>87</sup> Education Commission of the State: [www.ecs.org](http://www.ecs.org).

<sup>88</sup> [www.edreform.org](http://www.edreform.org)

<sup>89</sup> There were 2,556 charter schools serving 685,000 students in 36 states and Washington, D.C. in 2002.

## Educational Contracting

School districts often contract with for profit education management organizations (EMOs) to operate schools that have mal-functioned under district administration. EMOs offer a series of services to schools, including “administrative services, such as payroll, budgeting, and personnel management, and educational services/ programs, such as curriculum, assessments, and teacher training” (Bulkley, et.al, 2003, p.3).

### 3.3.3 Life-long learning

The approach of lifelong education emerged from 1970s. Faure (1972) holds that this approach should be adopted as the guiding principle for reforming education at all levels and in all countries. In 1996, the Commission of the European Communities declared 1996 to be the European Year of Lifelong Learning, from which life-long learning became a “global policy consensus” (Field, 2006, p.11). “Memorandum on Lifelong Learning” in 2000 (European Commission, 2000) identified lifelong learning as an essential element for Europe’s future by preventing a widening gap between the “learning rich” and “learning poor<sup>90</sup>” (Van Beiler, et.al, 2007, pp.216-228). Lifelong learning is hence regarded as the prerequisite for success in an increasingly competitive business environment and international community. Three fundamental attributes are often involved in the life-long concept:

- It is life-long and therefore concerns everything from cradle to grave;
- It is life-wide, recognizing that learning occurs in many different settings; and
- It focuses on learning, rather than limiting itself to education.

(Desjardins, et al. 2006, p.19)

The concept of life-long learning with such attributes suggests three categories of settings where purposeful learning activity takes place: Formal learning; Non-formal learning; and Informal learning. That is to say, the approach of lifelong learning inspires new types of learning.

One type of learning is distance learning. Smith and Stroud (1982) summarize various models of distance learning: cable television; satellite transmission; Instructional Television Fixed Service; Subsidiary Communication Multiplex Operation; slow scan television; videotext and

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<sup>90</sup> For instance, early school leavers, the less formally educated, long-term unemployed, immigrants, groups of senior workers and citizens.

tele-text; “electronic blackboards”; videocassettes and videodiscs; computer networks or linked microprocessors; “teleconferencing”, and so on. Another new type is “open” learning systems or Open University, which provide a systematic approach to instruction by a wide array of different media. What’s more, sandwich courses and coop programs (referring to cooperation between education and industry) became popular (Knapper, 1991, p.109).

In addition, the approach of lifelong learning innovates instructional methods. And new ways of teaching and learning come into being, including individualized learning, independent learning projects, learning from peers, and so on. The development of instructional technology accompanies with those innovations. For example, Dillenbourg and Fischer (2007) provide an overview of research and development in the field of computer-supported collaborative learning (CSCL) which aims at improving learning and instruction in different areas of education and report the way technologies can be used for designing interactions. In order to provide teachers with potent tools to orchestrate classroom activities in real time, the use of “scripts” were explored in CSCL environments in an attempt to adapt to the physical context of a classroom. A collaborative learning script is “a pedagogical method” (Kaplan & Dillenbourg, 2005, p. 1) that structures collaborative tasks to “increase the probability that targeted interactions do actually occur” (ibid., p. 2).

Last but not least, the approach of lifelong learning gives rise to creation of non-traditional institutions, concerning polytechnics, community colleges, free universities, and corporate universities so on (Knapper, 1991, pp130-137). In Germany, large corporations have set up Corporate Universities in the end of the 1990, such as DaimlerChrysler, Lufthansa and Bertelsmann. Corporate universities network a wide array of experts and business schools, in order to address the individual needs of middle and top management level executives of the corporations.



### 3.4 Rationale

Institutional Paradigms are considered relevant to describe specific dimensions of for-profit education phenomenon, which are also appropriate for analyzing *yesterday* (causes of the emergence), *today* (strengths and weaknesses of the operation), and *tomorrow* (conceptualization of optimized paradigm to conduct “Edupreneur”) of Chinese “Edupreneurs”.

The new educational institutions share a series of characteristics and assumptions with the old institutions, which at the same time, enrich the latter with new theoretical and empirical directions (Peters, 2005). Nonetheless, there are definite distinctions in approaches to education between the old institutionalism and the new. In contrast with the old, New Institutionalism tends to:

- emphasize persistence and stability of organizational forces
- stress taken-for-granted and common understandings in organizational life
- de-emphasize newcomer socialization processes and the internalization of organizational norms
- recognize a deeper, more subtle and all-encompassing relationship with their immediate environments (Crowson, Robert L., et al. ,1996)

As the matter of fact, New Institutionalism spreads over a variety of disciplines including political science, economics, history, sociology, and organization theory, which gives rise to new and distinctive paradigms under this flag, as indicated the four distinct paradigms of new institutionalism established since 1990s which are highlighted in Table 3-7 (Campbell & Pedersen, 2001, p.10).

Table 3-7 Comparison of Institutional Paradigms

	<b>Rational choice institutionalism</b>	<b>Historical institutionalism</b>	<b>Organizational institutionalism</b>	<b>Discursive institutionalism</b>
<b>Problematic</b>	How do institutions solve problems of exchange and collect goods production?	How do institutions shape capacities for action and institution building?	How are institutions culturally constituted, rationalized and legitimized?	How are institutions constituted, framed, and transformed through discourse?
<b>Conditions of change</b>	Shift in costs and benefits	Crisis and exogenous shock	Increased environmental uncertainty	Perceived political-economic crisis
		Contradictory institutional logics	Political- cultural shifts	Presence of alternative discourses
<b>Mechanisms of change</b>	Interest-based struggle, conflict, bargaining, strategic gaming	Interest, idea, ideologically-based struggle, conflict, bargaining	Imitation, diffusion, translation	Translation, displacement
		Learning, feedback, and		

		experimentation		
<b>Epistemology and methodology</b>	Positivist deductive search for general theory	Comparative inductive search for historically specific theory	Positivist deductive search for theory	Interpretive inductive search for historically specific explanation
			Interpretive inductive search for historically specific explanation	Archaeology of texts

The table above enables an overview of scope and depth of each paradigm. These differences in focus of problem and interpretation of change lead to heterogeneous theories and issues within each paradigm. Discussed here are Transaction-cost theory, principle-agent theory of rational choice institutionalism, and isomorphism from the organizational institutionalism.

## The Transaction Cost Theory and Principal-agent Theory

As for the theory of economics and political science, the Neo-classical (old institutionalism) view of organizations centers on the entrepreneur, a hypothetical individual who is assumed to make all decisions for the firm and is given a wide array of properties defining his knowledge, objectives, computational skills and transaction cost, but ignores individual choice, environmental contests and goal conflicts. Behaviorists focus on individual choices and often viewed organizations as a collection of individual processes, but neglects the fact that social, political, and economic institutions have become larger, more complex and resourceful, and prima facie more important to collective life. New institutionalism, on the other hand, tries to make up for the shortcomings of those previous theories. The core of new institutionalism viewpoints in economics is the transaction cost theory and the principal-agent theory.

Concepts like transaction costs, property rights, and contractual relations form the foundation of New Institutional Economics. In general, contracts are produced mainly by "the individual exchanges" and "the competition over alternatives" (Knight, 2001, p.35), on the basis of our fundamental "relative ignorance" (Furubotn & Richter, 2000, p.17). Transaction costs are costs of agreeing to a contract (including measuring all the attributes relevant for the exchange) and the costs of enforcing the contract (including the costs of detecting infringement, policing and punishing) (Harriss, et al., 1995, p.74). In

other words, the transaction costs approach assumes that contracts are incomplete because not all contingencies can be anticipated (i.e., bounded rationality) and enforcement is imperfect (i.e., detecting and punishing noncompliance is costly). Source of transaction costs include the difficulty of foreseeing the possible managerial or political contingencies, the cost of wording a contract, and the cost of writing a legally binding contract (Bogetoft, P., et al., 2004, pp.65-66). In order to minimize transaction costs of involving exchange and maximize the benefits of certain property, actors tend to contract for the best way to structure the use of that property, which includes a number of choices, ranging from "some form of shared or common property rights to various divisions into private property share" (Campbell & Pedersen, 2001, p.36).

The enduring commitment to individual property mirrors the operation of economics. To put it in another way, the methodological commitments inherent in contemporary economics lead inevitably to but one institutional (property rights) form (Bromley, 2006, p.38). Thus, the developments on property rights have been taken "as a major reform measure to improve efficiency" in transitional economic scenarios (Tian, X, & Lo, V., 2007, p.69). According to Xu and et al. (2007), stronger ownership stakes by non-government shareholders like individuals and foreign investors might lower the political cost, stimulate sounder monitoring and raise the accountability pressure for executives (p.204). Figure 3-1 (Bromley, 2006, p.39) elaborates different types of property regimes within which individuals can have a variety of rights and duties.

In summary, the transaction cost theory explains when and under which circumstances economic transactions should be managed by market pricing mechanism, when and under which circumstances by the institutional arrangement, and when by the compromise between the two approaches.

Figure 3-1: Property regimes

#### STATE PROPERTY

The political community is the recognized owner of the asset. Individuals in the political community may benefit from the asset but must observe rules of the government agency responsible to the political community. Examples: national forests and parks, military bases, government office buildings, some agricultural land in China.

#### PRIVATE PROPERTY

Individual members of the political community have a recognized right to benefit from the asset, subject to legislative mediation and judicial review. Non-owners have a duty to allow owners to behave as above. Examples: fee-simple land and buildings, automobiles, personal objects.

#### COMMON PROPERTY

A group of owners holds rights in common, including the right to exclude non-owners. Individual owners have specific rights and duties with respect to their ability to benefit from the asset, subject to legislative mediation and judicial review within the larger political community. Non-owners have a legal duty to respect boundaries of the regime. Examples: irrigation districts, condominiums, the Swiss alps (pastures).

Principal-Agent Theory (PAT) accounts for both actor motivation and the role of organizational structures in constraining that behavior. According to principal-agent theory, organizations are bundles of explicit and implicit contracts that define the relationship between principals and the agents. The common unit of analysis and assumption is the contract between the principal and the agent. The economics PAT assumes that, much of organizational life is based, at least partly, on people's self-interest, opportunism and goal conflicts

(Rowan & Miskel, 1999, p.579). Principal-agent models may give rise to problems of information asymmetry and incentive incompatibility.

## Isomorphism

It is widely believed that individuals enjoy considerable autonomy in organizations and operate in a reasonable environment, pursuing self-interests. This belief constitutes the core of various theories in social science.

New institutionalism points out that the actors operate in a certain context, which produces rules, regulations, forms, and definitions of the context, as to further restrict and shape the actions of the actors. Here, actors refer to individuals, managers, interest groups, bureaus, and enterprises. New institutionalism aims to study how a certain context comes about, and how does it influence social operations (Rowan & Miskel, 1999, p.577).

New institutionalism attempts to identify, explain, and predict developments with organizational fields, and highlights isomorphism—a process of convergence that yields similarities among organizations, homogeneity and stability, in contrast to organizational diversity and diversification.

New institutionalism classifies isomorphism into three types: coercive, mimic and normative. Coercive isomorphism is identified as the processes of homogenization resulting from “formal and informal pressures exerted on organizations” by peers in their environment. Mimetic isomorphism is typical of organizations operating with ambiguous technologies to produce outputs that are difficult to appraise. In other words, mimetic isomorphism occurs when an organization, often as a response to uncertainty, models itself after similar organizations in its field that it perceives to be more legitimate or successful. Normative isomorphism stems from professionalization resting on formal education and the elaboration of professional networks, resulting in

incorporating multiple institutional models (Meyer & Rowan, 1977, pp340-363, Borum & Westenholz, 1995, p.114). Normative Isomorphism also occurs amid educational institutions like in privatized higher education (Levy, 1999, pp.15-44).

Conceptual contribution of new institutionalism in education is that it emphasizes the structure issue in the organization of schooling and the ties between the schools and the societal context, and advocates the re-establishment of the political and social significance of institutions. And institutional theory as a theoretical framework to understand for-profit organizations could “illuminate the extent to which the institutional and rational perspectives complement or contradict one another” (Mezias, 1995, p.165).



## CHAPTER -4

### METHODOLOGY

#### 4.1.Introduction of Methodology

##### 4.1.1 Qualitative Research

Quantitative methods are “procedures and techniques used to analyze data numerically” (Antonius, 2003, p.2) and “explaining phenomena by collecting numerical data that are analyzed using mathematically based methods” (Muijs, 2004, p.1). In other words, they involve numerically measuring the degree to which some feature is present.

Qualitative methods can also be described as “procedures for counting to one” (Sherman, E. & Reid, W. J., 1994, p.496), which identify the presence or absence of something. Accordingly, quantitative research inquires into an identified problem based on testing a theory, measured and analyzed using statistical techniques, while qualitative research produces descriptive data based on spoken or written words, pictures, paragraphs and observable behavior.

Qualitative research methods involve narrative, content, discourse, archival, and phonemic analysis, even statistics (Denzin & Lincoln, 1994). Typically, it includes interviews, observations, case studies, surveys, and historical and document analyses (Savenye & Robinson, 2004). At the beginning of any study, appropriate research strategies should be chosen ranging from ethnography, case study, interview, participant observation, naturalistic study, phenomenological study, descriptive study, interpretive research, action research, narrative research and so on (Janesick, 1994).

There are plenty of defining features of qualitative methods:

- Gain some insight into a particular subject quickly;
- Gain first-hand information into the respondents' behaviors, attitudes, language, and feelings;
- Apply to a highly complex subject matter and particularly knowledgeable respondents or interviewees;
- Provide the opportunity for group interaction;
- Allow new and valuable thoughts to emerge; ... ..
- ... ..

This research will study Chinese for-profit institutions as to develop a better and deeper understanding of ongoing trend of for-profit sector in China. It needs to produce descriptive data based on spoken or written words, pictures, paragraphs and observable behavior, as the before-mentioned trend as well as the sector has been understudied. And hence, this study will be qualitative in nature.

#### 4.1.2 Application of Case Study Strategy

Case study is a way of organizing social data to preserve the unitary character of the social object being studied. The principal difference between case studies and other research studies is that the focus of attention is the case (Stake, 1988), everything on the case, whereas other methods focus something on the case, to say the most, if there is a case. For instance, observation involves factors like timing, location, unpredictable interactions of people on site and uncharted dynamics between objects that are being observed, even though we can always refer it as an observation on a case. Stake (1995) then further spoke of three classifications of case studies:

- Intrinsic: study is undertaken because one wants better understanding of this particular case;

- Instrumental: study is to accomplish something other than to understand this particular one and
- Collective: when a group of cases is studied.

In addition, the Use of the case study strategy requires three conditions, according to Yin (1994):

*(a) The research questions focused on "how" or "why";*

*(b) The researcher has little or no control over actual behavioral events; and*

*(c) The focus more frequently on contemporary as opposed to historical phenomena.*

This study meets the criteria of utilizing case study strategy. The phenomenon that for-profit educational institutions increase sharply in number in the mid- and late 1990s, gave rise to study interest on "how" and "why". This increase attracted attention long before the researcher began this study, making the investigation independent of the outcomes. In addition, for-profit schools have won a considerable portion of the education market only since the last two decades. It's by all means a contemporary phenomenon and in real-life context.

The case is instrumental in that it would not only help to shape the for-profit education in China, facilitate better comprehension of the operation and the economic returns of for-profits in China, but also examine the cooperation prospects between China and Germany in order to address needs of both parties. In other words, this research endeavors to provide some instruments by revealing some details that may not be clear to most of the observers. At the same time, collective case study strategy will also be applied, as there would be a group of cases involved for the purpose of the comprehension on the scope and size of the for-profit education in China,

### 4.1.3 Triangulation

There are six data sources for the case study design: documentation, archival records, interviews, direct observation, participant observation, and physical artifacts (Yin, 1994). And multiple and appropriate sources are complementary. This study will use the most applicable and practical ones:

- Documents – The researcher will collect presentations, agendas, and study reports on the selected case.
- Archival Records – The researcher will collect survey data, personal records and observations from those associated with the case, charts, databases, etc.
- Direct Observation –Jenesick (1994) stated, staying close to the data is the most powerful means of telling the story. The researcher will visit sites of the case subject including their campus, corporation building, administrative offices, classrooms and labs, in order to get the real picture and record the perceptions in a forthright manner.
- Interviews –standardized interviews with administrators will be conducted.

The qualitative nature of the study also provides an opportunity for data triangulation for validating trustworthiness. Hence, multiple data collection methods are used to allow triangulation, i.e. the strategy of interview (for new and valuable thoughts to emerge), observation (for adding direct experience and fresh perspective), archival Records and documents analysis (for retrieving the cases' institution model and business practice). The method of interview will be designed and applied first, providing a richer picture of the participants' own perspectives, which will then be compared with the other types of data, for seeking themes or emphasizes.

## 4.2 Research design

### 4.2.1 Research Objectives and Research Questions

This research intends to feature the Chinese echoes to the trend of For-profit education. The purpose of the study is three-fold.

1. To begin with, the author aims to portray the scope and size of Chinese for-profit education sector, and make a tentative classification for “Edupreneurs” operating in Chinese education and training market.
2. Next, the author aims to show the panorama of Chinese for-profit education in terms of its *yesterday* (causes of the emergence), *today* (strengths and weaknesses of the operation), and *tomorrow* (conceptualization of optimized paradigm to conduct “Edupreneur”) of Chinese “Edupreneurs”.
3. Last but not least, the researcher proposes to promote educational cooperation between Germany and China. Germany is among the most popular destinations for international student mobility—it ranks three after the United States, the United Kingdom (OECD, 2006, p.283)—thanks to its excellent educational resources and services. Nevertheless, Germany has been avoiding the private surge, and thus a for-profit surge so far, even when faced with severe budget cuts and funding problems. Is this a voluntary or reluctant rejection, under the current educational system lacking self-management and autonomy? A quest for combining German provision and Chinese consumption will then be incorporated in this study.

Should the private sector profit from education? Is education a good, a commodity, or a business? This study addresses the challenges and controversies stirred up by the explosion of for-profit education and explores those likely momentums underlying the rise of for-profits such as privatization in the education arena and the trend of life-long learning. For a further analysis,

new institutionalism as rationale is applied in order to acquire a thorough understanding of the phenomenon.

Accordingly, there are two main research questions that are addressed in this research:

RQ1 Is it possible to classify “Edupreneurs” operating in Chinese education and training market?

RQ2 What has been influencing on Chinese for-profits' mission statements, curriculum, students, faculty and the like area?

RQ3 How would new institutionalism account for the for-profit phenomenon?

RQ4 Is it possible to cooperate in providing high-quality and affordable for-profit education products and service between China and Germany?

## 4.2.2 Interview Design

### 4.2.2.1 The method of Interview

Greatest contributor to the data collecting process of case study is the interview strategy. According to Reinharz (1992, p.19), interviewing offers researchers access to people’s ideas, thoughts, and memories in their own words rather than in the words of the researcher. The purpose of interviewing is not to get answers to questions, nor to evaluate (Patton, 1989) , based on an interest in comprehending the experience of other people and the meaning they make of that experience (Seidman, 1998). In conclusion, interview is regarded as inter-view, an interchange of views between two or more people on a topic of mutual interest. It sees the centrality of human interaction for

knowledge production, and emphasizes the social situations of research data (Cohen, et al, 2007, p.349). That's why the observation of interviewer also plays a role in the research.

The purpose of the application of interview strategy in this study is to gather data and to sample respondents' opinions on the for-profit sector. Apart from interviewing the selected case subject, extra interviews will also be conducted among other Chinese "Edupreneurs" as to have a broader view of the panorama. Hence, well-designed questions will guarantee the quality of the interview. By substance, questions can be categorized as:

- Descriptive questions
- Experience questions
- Behavior questions
- Knowledge questions
- Construct-forming questions
- Contrast questions (asking respondents to contrast one thing with another)
- Feeling questions
- Sensory questions
- Background questions
- Demographic questions

By process, questions can be categorized as:

- Introduce a topic or interview
- Follow-up on a topic or idea
- Probe for further information or response
- Ask respondents to specify and provide examples
- Directly ask for information
- Indirectly ask for information
- Interpret respondents' replies

(Spradley, 1979; Patton, 1980; Kvale, 1996).

In designing questions in the interviews, multiple categories of questions must be incorporated in order to assure the acquisition of needed information. The researcher tries all question types mentioned above in this study.

#### 4.2.2.2 Guiding Questions in the Interview

As the main method of data collection, the author will conduct semi-structured interviews mainly in Beijing. The research questions serve as the starting point for the interviews. Additional and more concrete questions based on multiple categories help the researcher create in-depth understanding. These guiding questions include experience questions and behavior questions of the respondents, descriptive question and knowledge questions of each case subject, background questions and sensory questions as well as feeling questions for the education and training industry and respective market segment they are operating in. During the interviewing process, the researcher will apply various interviewing techniques, such as bringing following-up questions, asking for examples and interpreting respondents' attitudes and replies.

These interviews will be averaged 60 minutes and recorded. Then they will be transcribed. Following are the topical areas, each with associated and concrete questions, mainly calling for the reflections of interviewees on the culture, strategies, and corporate operation of the specific "Edupreneur" they are involved in:



## Part 1 Ownership (Trägerschaft, Eigentümerschaft)

1.1 Founding year of the institution. (changes inbetween?) (gründen)

1.2 What is the type of the institution?

A: Sole proprietorships (einzigiger Geschäftsinhaber)

B: partnerships (Mitinhalbeschaft)

C: limited liability companies (GmbH)

D: corporation (Aktiengeschaft)

E: Others

1.3 Is your institution public or private funded, public or private operated?

A: Public

B: Private (Finanzierung, Betreiben)

1.4 Does your institution pay tax to the state or federal government? (Steuer bezahlen)

A: No

B: Yes. How much?

1.5 Does your institution receive subsidy from state or federal government?

A: No

B: Yes. How? How much? (Staatliche Unterstützung, Subventionen)

1.6 What are the major sources of your revenue? (What do you think the major sources of your revenue or your profit in 2-5 years?) (Quelle der Betriebseinkommen)

A: tuition fee (range)

B: Federal appropriations, grants, and contracts

C: State and local appropriations, grants, and contracts

D: Private gifts, grants, and contracts

E: Investment returns

F: Educational activities

G: Auxiliary enterprises

H: Other

1.7 What constitutes major expenditure or cost of your institution? (What do you think the major expenditure or cost in 2-5 years?)

A: Instruction

B: Research and public service

C: Student service, academic and institutional support (64%)

D: Auxiliary enterprise

E: Net grant aid to students

F: other

1.8 Is your institution concerned about increasing revenue? If yes, what are your major strategies?

1.9 Is your institution concerned about reducing cost? If yes, what are your major strategies?

1.10 Who is in charge of funding of the institution?

1.11 Who is in charge of other "Capital" factor of the institution: financial decision making/ budgeting/short-term financial planning?

1.12 In your institution is there a research or teaching division, department, or other functional unit that incorporates "For-Profit" or "Proprietary" into its title?

A: No

B: Yes

## Part 2 the Interviewee

2.1 Could you tell me your educational background?

A: Bachelor

B: Master/ Diplom/ Magister

C: PhD

D: MBA

E: Other

2.2 Could you tell me your working experience?

A: A year ago...

B: 5 Years ago

C: 10 Years ago

D: Other

2.3 Could you tell me your position in the company and your responsibilities?

A: CEO

B: Senior Management

C: Middle Management

D: Other

2.4 Why did you become a manager/executive in this education company?

A:

B:

2.5 How do you see your career in ten years?

A:

B:

2.6 Have you heard about "For-profit education" originated from the U.S.?

A: No

B: Yes

2.7 Do you agree that "Education yields profit"?

A: No

B: Yes. Do you know any profit-making educational programs in Germany?

2.8 Do you know any listed educational companies in Germany?

A: No

B: Yes. Which stock market?

## Part 3 Provision

3.1 What field does your institution specialize in?

- A: Language
- B: IT
- C: Media/Communication
- D: Management
- E: Vocational Training
- F: Others

3.2 Is your institution degree-granting or not?

- A: No
- B: Yes

3.3 What degrees does your institution grant?

- A: Bachelor
- B: Master/ Diplom/ Magister
- C: PhD
- D: MBA
- E: Other

3.4 What Certificate is your institution authorized to grant? Authorized by whom?

- A:
- B:

3.5 How are educational program developed and updated? (Process, who's in charge)

3.6 How is curriculum developed and updated? (Process, who's in charge)

3.7 How to plan the course sequencing, flexibility and scheduling? (What factors are taken into account?)

3.8 How many students are enrolled in each program? How many in total (in 3-5 years)?

3.9 Graduation rate.

## Part 4 Instruction

- 4.1 Is there explicit philosophy of the instruction in your institution?
- 4.2 If yes, what strategy does your institution take to achieve it?
- 4.3 Who's in charge of "teaching"?
- 4.4 Is there explicit philosophy of the research/ academic in your institution?
- 4.5 If yes, what strategy does your institution take to achieve it?
- 4.6 Who's in charge of "research"?
- 4.7 How does your institution evaluate students' outcome? (criteria for good outcome)
- 4.8 How does your institution evaluate customers' reaction? (Criteria for satisfaction)
- 4.9 Instructional arrangement  
A: lecture B: Seminar C: Workshop D: Others
- 4.10 Instructional methods/ design (Diversity/Standardization)
- 4.11 Which technologies are adopted in the instruction?  
A: Power point  
B: Projector  
C: Multi-media  
D: Web 2.0  
E: Others
- 4.12 Class Size
- 4.13 How does your institution define teacher's role in operation? (Do you agree? If not, what do you think the faculty's role should be?)  
A: We don't care B: not as important as ...C: as important as...  
D: the most important E: Other
- 4.14 Is there critic or criticism for the instruction in training institution/ Private University?
- 4.15 Who is in charge of instruction design?

## Part 5 Quality Assurance

5.1 In which ways does your institution build up and keep a high-qualified faculty?

- A: Strict recruitment
- B: High compensation (material incentives)
- C: Corporate culture (spiritual incentives)
- D: training
- E: Others

5.2 What are the criteria for recruiting instructors?

- A: Degree    B: Certificate    C: Previous working experience
- D: Students' evaluation    E: Trial classes    F: Others

5.3 What kinds of training are adopted?

- A: before-service/ On-service
- B: pedagogy-concerned/ didactic-concerned/content-concerned

5.4 Number of faculty. Number of employee.

Proportion of Part-time and full-time

5.5 Is there career path for faculty and staff?

5.6 What are the main approaches to guarantee the students' outcomes?

How are customer services assured?

5.7 What are the main approaches to guarantee the teachers' performance?

5.8 What are the main approaches to guarantee the staff' performance?

5.9 Is there (systematic) evaluation adopted?

5.10 How do you contribute to the process of quality assurance?

5.11 How would you think the strengths and weaknesses of the quality control system for educational products?

5.12 Who is in charge of the quality assurance?

## Part 6 Management

6.1 What are the characteristics of the business model?

How do you contribute to the process?

6.2 Can you describe basic business strategy of this company?

What are your tasks in the business strategy?

Who is in charge of business strategy?

6.3 Marketing Strategy

6.4 How do you think the strengths and drivers of the company?

6.5 Where do challenges and opportunities lie in?

6.6 Who are leading or potential competitors?

6.7 How is marketing strategy conducted?

6.8 How does your company respond to changes in market demands?

6.9 How to keep the balance between departments and offerings, especially when they are overlapping in a way?

6.10 What's your Public Relationship strategy?

6.11 How does your company communicate with government and median?

6.12 How does your company communicate with traditional schools and universities?

6.13 What are the company's short and long-term objectives?

## Part 7 Corporate Culture

7.1 Is there explicit corporate culture in your institution?

If yes,

Please tell me the mission, vision, motto and slogan of the company.

Please comment the motto and the explicit mission?

What in your view are major features of the corporate culture in this company? Will your colleagues agree with you?

What do you contribute to the corporate culture?

Is there any element of the culture that dissatisfies you? If yes, what it is?

And what do you think can be done to make a difference?

7.2 What are the values that cherished in the company?

What's your personal contribution to the value?

Can you define the value(s) you just mentioned or give an example?

Have the values changed since it founded? If changed, why?

What's the result of the value-change in the actions?

What are the consequences of this value-transfer?

What do you judge the stress and weakness of the value(s)?

7.3 Do you think your company is successful?

How does your company define success?

Please justify your judgment of this success (or non-success).

7.4 What in your view contributes to a successful private company in the training sector in Germany?

What in your view contributes to a successful private university in Germany?

7.5 What's the actual image of your company in the eyes of students, investors and shareholders?

What is the ideal image that your company intent to create?

What's ideal image that you want the company pursue?



## Part 8 Confirmation about the Structure

8.1 Could you tell me the organizational structure of the institution?

8.2 Could you tell me the administrative structure of the institution?

8.3 How do you contribute to the process?

8.4 If it is a corporation, what is the relationship between board of directors and chief executive officer?

8.5 Who is in charge of the “Human” factor of the institution?

8.6 Who is in charge of the “Capital” factor of the institution?

8.7 Who is in charge of the “Quality” factor of the institution?

To sum up, this study will be qualitative in nature. Data collected will be qualitative utilizing naturalistic inquiry. The sampling strategy is to use case study approach in order to gain profound insight into the selected extraordinary case subjects, especially by use of the interview strategy. Extra but standardized interviews will also be conducted for the cross case comparison and the exploration of a bigger picture in Chinese education and training industry.

### 4.2.3 Data Analysis Procedures

According to Cohen (2007, p.368), analyzing data from the interview involves several stages:

- Generating natural units of meaning
- Classifying, categorizing and ordering these units of meaning
- Structuring narratives to describe the interview contents
- Interpreting the interview data

As for the transcript of the audiotape, Miles and Huberman (1994) suggest twelve tactics for generating meaning from transcribed and interview data:

- Counting frequencies of occurrence (of ideas, themes, pieces of data, words)
- Noting patterns and themes (Gestalts), which may stem from repeated them and causes or explanations or constructs
- Seeing plausibility: trying to make good sense of data, using informed intuition to reach a conclusion
- Making metaphors: using figurative and connotative language rather than literal and denotative language, bringing data to life, thereby reducing data, making patterns, decentering the data, and connecting data with theory
- Splitting variables to elaborate, differentiate and “unpack” ideas, i.e. to move away from the drive towards integration and the blurring of data
- Subsuming particulars into the general, akin to the notion of “constant comparison”—a move towards clarifying key concepts
- Factoring: bringing a large number of variables under a smaller number of (frequently) unobserved hypothetical variables
- Identifying and noting relations between variables
- Finding intervening variables: looking for other variables that appear to be “getting in the way” of accounting for what one would expect to be

strong relationships between variables

- Building a logical chain of evidence: noting causality and making inferences
- Making conceptual/theoretical coherence: moving from metaphors to constructs to theories to explain the phenomena.

In addition, coding has been defined by Kerlinger (1970) as the translation of question responses and respondent information to specific categories for the purpose of analysis. As Cohen (2007, p.369) states, coding and comparison are ways of reducing data overload from qualitative data.

In order to analyze the interviews and other data, the researcher will first generate the literal and figurative meaning of the data, then classify and interpret the data. In the process of transcribing, repeated ideas, themes, words and their respective patterns will be paid due attention. After screen variables and interaction of variables, logic chain and conceptual coherence will be made.

#### 4.2.4 Ethical Guidelines

Ethical issues are inescapable in case study (Simon, 1989, p.114), for example, as to protecting participants from harm, or to ensuring confidentiality of research data. Ethical guidelines in this study are as follows:

- The participation in research is voluntary.
- All participants will be offered the opportunity to remain anonymous. Pseudonyms will be substituted in the case report according to the wish of the interviewees.
- The transcripts of every interview will be shown to the interviewee and will only be included in the case record in a form agreed by the interviewee.
- Interviewees will receive the interview transcript.

## CHAPTER 5

### FINDINGS AND ANALYSIS

#### 5.1 Overview of the Research Conducted

##### 5.1.1 Results of Case Selection

###### 5.1.1.1 Case Selection Criteria

Key selection criteria reviewed fall in three categories:

- **Market Position:** Measuring factors such as market share and penetration, strength of sales and distribution channels, and the breadth and depth of offering.
- **Operation Characteristics:** Measuring factors such as degree of innovation, ability to fulfill current and anticipated market demand, as well as diversity in program offerings.
- **Data Accessibility:** Measuring factors such as Accessibility of interviews with company executives, Response possibility to Formal requests for information, the amount of publicly available sources, including industry publications and other third party-research.
- **Location:** Beijing

###### 5.1.1.2 Creation of Chinese “Edupreneurs” Pool

In order to select suitable cases, a Chinese “Edupreneurs” pool has to be created. The creation of the pool is based on the question, what are major representatives in each market segment in Chinese education and training industry. Table 5-1 is a rough breakdown of Chinese “Edupreneurs” in each market subdivision with brand name companies.

The next question is who are the major players in each segment? Except for five quoted companies mentioned before, companies that attract venture capital are deemed as promising players in the market. Table 5-2 lists some of the venture capital raised for various Chinese education companies by March, 2008. On top of this, those who play roles in each sub-market are also to be taken into account.

After scrutiny under the criteria listed above, the company selected for a case study is the New Oriental Education & Technology Group Inc. The companies selected for interviews are as follows:

- Listed companies (2): New Oriental Education & Technology Group Inc.; Noah Education Holdings Ltd.;
- Companies received VC. (5): Tarena Technology; Beijing Juren Education Group; Global Professional Education Online Company; China Talent Group; Xueersi;
- Companies of Strength in each sub-market (4): Sunland Career; Bainian Shuren; CG Power Animation School; Pinghaitingfeng Training.
- Representative of diverse small companies (3): Beijing Shine Times Visual Arts Design Company; Sunshine DRK Psychology Training ; San Ren Xing education and technology limited.

Table 5-1 Breakdown of Chinese “Edupreneurs” in each market segment

	<b>Education Sector</b>	<b>Market Segment</b>	<b>Company Name and Website</b>
<b>Offline</b>	Pre-School (0-6)	Childcare	Baby Care ( <a href="http://www.babycare.cn">www.babycare.cn</a> )
			Ryb-Baby ( <a href="http://www.ryb-baby.com">www.ryb-baby.com</a> )
			Southbaby ( <a href="http://www.southbaby.com">www.southbaby.com</a> )
			New Oriental Education & Technology Group, Inc. ( <a href="http://www.neworiental.org">www.neworiental.org</a> ) ★
	K-12	Education	Huijia Education Organization ( <a href="http://www.huijia2000.com">www.huijia2000.com</a> )
			Maple Leaf Educational Systems ( <a href="http://www.mapleleaf.net.cn">www.mapleleaf.net.cn</a> ) *
			ChinaEdu Corporation ( <a href="http://www.chinaedu.net">www.chinaedu.net</a> ) ★
			Siwa Education ( <a href="http://www.siwaedu.com">www.siwaedu.com</a> )
			Best Study ( <a href="http://www.beststudy.net">www.beststudy.net</a> ) *
		Tutoring Services	Juren Group ( <a href="http://www.juren.com">www.juren.com</a> ) *
			Xueersi Education ( <a href="http://www.xueersi.com">www.xueersi.com</a> ) *
			Xueda Education Technology (Beijing) Co. Ltd. ( <a href="http://www.21edu.com">www.21edu.com</a> ) *
		Before, After and Summer	Oriental Century Limited ( <a href="http://www.orientalcentury.com">www.orientalcentury.com</a> ) ★

	schools		
Post-secondary	Degree-granting Higher Education	Private	Beijing Geely University ( <a href="http://www.bgeelyu.com">www.bgeelyu.com</a> )
			Beijing City University ( <a href="http://www.bcu.edu.cn">www.bcu.edu.cn</a> )
			Xi'an FanYi University ( <a href="http://www.xfuedu.org">www.xfuedu.org</a> )
			Xi'an International University ( <a href="http://www.xaiu.edu.cn">www.xaiu.edu.cn</a> )
			Xi'an Siyuan University
	International Background	International Background	China Education Limited (Raffles Education Corp.)
			The WECL College ( <a href="http://www.wecl.com.cn">www.wecl.com.cn</a> )
	Language Training	English	New Oriental Education & Technology Group, Inc. ( <a href="http://www.neworiental.org">www.neworiental.org</a> )
			NewChannel Group ( <a href="http://www.newchannel.org">www.newchannel.org</a> )
		Other languages	New Oriental Education & Technology Group, Inc. ( <a href="http://www.neworiental.org">www.neworiental.org</a> )
			New World ( <a href="http://www.newworldonline.org">www.newworldonline.org</a> ) *
	Test Preparing	Language Tests	New Oriental Education & Technology Group, Inc. ( <a href="http://www.neworiental.org">www.neworiental.org</a> )
		Other Tests	Global Ielts School ( <a href="http://www.ielts.com.cn">www.ielts.com.cn</a> )
Universal Education Group ( <a href="http://www.hwkaoyan.com">www.hwkaoyan.com</a> ) *			
IT Vocational Training	Eduask International Group ( <a href="http://www.eduask.com">www.eduask.com</a> ) *		
	New Oriental Education & Technology Group, Inc. ( <a href="http://www.neworiental.org">www.neworiental.org</a> )		

			Tarena Technology ( <a href="http://www.tarena.com.cn">www.tarena.com.cn</a> )
			Aptech ( <a href="http://www.accpedu.com">www.accpedu.com</a> )
		Vocational Training	Beijing Huizhong Yizhi Schience& Technology Co.,Ltd ( <a href="http://cbda.gamfe.com">http://cbda.gamfe.com</a> ) *
			Dalian Neusoft Institute of Information ( <a href="http://www.neusoft.edu.cn">www.neusoft.edu.cn</a> )
			Jiangxi Garment Institute of Technology ( <a href="http://www.fuzhuang.com.cn">www.fuzhuang.com.cn</a> )
			Anhui Xinhua University ( <a href="http://www.axhu.cn">www.axhu.cn</a> )
			Pinghaitingfeng Training ( <a href="http://www.52yoga.org.cn">www.52yoga.org.cn</a> )
			Jiangxidayu Vocational&Technical Institute ( <a href="http://www.jxdy.com">www.jxdy.com</a> )
		Vocational Skills Training	Shangdong Lanxiang Jixiao ( <a href="http://hosts.jn.sd.cn/lanxiang/www">http://hosts.jn.sd.cn/lanxiang/www</a> )
		Testing Services	ATA Inc. ( <a href="http://www.ata.net.cn">www.ata.net.cn</a> )★
	Corporate	Language Training	New Oriental Education & Technology Group, Inc. ( <a href="http://www.neworiental.org">www.neworiental.org</a> )
		Internal Training	Beijing Hode Human Resource Development Co., Ltd. ( <a href="http://www.hodehr.com">www.hodehr.com</a> ) ShengJing360 ( <a href="http://www.shengjing360.com">www.shengjing360.com</a> )
		Outsourcing	China Talent Group ( <a href="http://www.chinatalentgroup.com">www.chinatalentgroup.com</a> ) *
<b>Online</b>	K-12	Tutoring	ChinaEdu Corporation ( <a href="http://www.chinaedu.net">www.chinaedu.net</a> ) Noah Education Holdings Limited ( <a href="http://www.noahtech.com.cn">www.noahtech.com.cn</a> ) ★



		WebEx ( <a href="http://www.webex.com.cn">www.webex.com.cn</a> )
		Ambow Education Group ( <a href="http://www.ambow.com.cn/">http://www.ambow.com.cn/</a> ) *
Post-secondary	Degree-granting HE	ChinaEdu Corporation ( <a href="http://www.chinaedu.net">www.chinaedu.net</a> )
	Language Training	100e Co.,Ltd. ( <a href="http://www.100e.com">www.100e.com</a> ) *
		Saybot ( <a href="http://www.saybot.com">www.saybot.com</a> )
	Vocational Certification Training	Ambow Education Group ( <a href="http://www.ambow.com.cn/">http://www.ambow.com.cn/</a> )
		Sunland Career ( <a href="http://www.sunland.org.cn">www.sunland.org.cn</a> )
		Sunshine DRK Psychology Training Center ( <a href="http://xl.ygtraining.com">http://xl.ygtraining.com</a> )
E-Service		China-Training ( <a href="http://www.China-training.com">www.China-training.com</a> )
		Feloo ( <a href="http://www.feloo.com">www.feloo.com</a> )
		ChinaWebEdu ( <a href="http://www.chinawebedu.com">www.chinawebedu.com</a> )

★Quoted Companies trading in stock market \* Companies with Venture Capital injection

Table 5-2 Chinese “Edupreneurs” financed by Venture Capital

Company Name	Logo	Investors	Sum (\$ M)	Time
China Talent Group		GGV Capital	N/A	06-03
		GGV Capital/ The CID Group	12	07-12
Ambow Education Group		JAFCO Investment (Hong Kong) Ltd./ Cisco Systems, Inc./ The CID Group	10	06-04
		Macquarie Capital Alliance Group/ Cisco Systems, Inc./ The CID Group/ Avenue Capital Group	54.21	07-10
Tarena Technology		IDGVC	5	06-06
100e Co., Ltd.		iD TechVentures Inc.	3	06-09
		NIF SMBC Ventures Asia Limited/ iD TechVentures Inc.	N/A	08-03

<b>Beijing Juren Education Group</b>		Qiming Venture Partners/ SIG Asia Investment, LLLP	20	07-09
<b>Newworld Education Group</b>		The Carlyle Group	20	07-09
<b>Eduask International Group</b>		SAIF Partners	10	07-09
<b>Saybot</b>		CID/CMHJ/Hutong/Vickers Venture	8.2	07-09
<b>Guangzhou Best Study Education Center</b>		N/A	N/A	07-10
<b>Xueda Education Technology (Beijing) co.,ltd</b>		CDH Investment	10	07-10
<b>Maple Leaf Educational Systems</b>		N/A	3.5	07-12

<b>Universal Education Group</b>		Sequoia Capital China/ Legend Capital	10	08-02
<b>Huizhong Yizhi Sci &amp; Tech. Co., Ltd.</b>		KPCB China	10	08-03
<b>Beijing Riverdeep International Education Technology Development Co., Ltd.</b>		EMPG Group	30	08-08
<b>Xueersi</b>		Tiger Global Management; KTB Ventures	40	09-09

### 5.1.1.3 Selected “Edupreneurs”

This section gives an overview of selected “Edupreneurs”, which introduces who they are, what they do, and what they have achieved. All information is derived from the company’s website and compiled by the author.

#### No.1. New Oriental Education & Technology Group Inc.

New Oriental Education & Technology Group Inc. (NOET as abbreviation), “flagship” of for-profit education industry in China, has long been the largest provider of private educational services in mainland China based on the number of program offerings, total student enrolments and geographic presence. “New Oriental” brand is the leading consumer brand in China’s private education sector, as evidenced by awards received from many national print and online media sources in China. Following statistics highlight the tremendous success over the group’s 15-year history (Staff-handbook of New Oriental Education & Technology Group Inc., 2007)

- Over 4 Million enrolmented students since 1993.
- National scale and network with 36 schools, 115 learning centers and 20 Bookstores.
- Offering a wide range of educational programs, services and products consisting primarily of English and other foreign language training, test preparation courses, primary and secondary school education, development and distribution of educational content, software and other technology, and online education.
- Approximately two million registered users of the virtual online network.
- Total net revenues increased from RMB441.8 million for the fiscal year ended May 31, 2004 to RMB770.3 million (US\$96.1 million) for the fiscal year ended May 31, 2006, representing a compound annual growth rate,

or CAGR, of 32.0%.

- Net income increased from RMB52.4 million in the fiscal year ended May 31, 2004 to RMB142.0 million in the fiscal year ended May 31, 2005.
- Went public in NYSE on September 7, 2006. Its initial public offering of 7.5 million American depositary shares was priced at \$15 each, topping the expected pricing range of \$11 to \$13
- Their stock soared 39 percent after their initial public offering (New Oriental, Website, 2006)

Reason for being selected: Largest market player, first listed Chinese educational company.

## No.2 Noah Education Holdings Ltd. (Beijing)

Noah Education Holdings Ltd. (Noah) is a provider of interactive education content in China. The Company develops and markets interactive, multimedia learning materials mainly to complement prescribed textbooks used in China's primary and secondary school curriculum, covering subjects, such as English, Chinese, mathematics, physics, chemistry, biology, geography, political science and history. It delivers content primarily through handheld digital learning devices (DLDs), into which the content is embedded or subsequently downloaded at over 8,500 points of sale, approximately 2,000 download centers, or through its Website, [www.noahedu.com](http://www.noahedu.com). In addition, Noah sells electronic dictionaries. In July 2007, it began offering after-school tutoring programs.

Reason for being selected: second listed Chinese educational company.

## No.3 Tarena Technologies Inc.

Tarena Technologies Inc., a high-end software training brand, specializes

in providing IT educational training services which include Java, Oracle database, Unix C++, game software development, network engineering, data warehousing and data mining techniques. The company also offers high-end software development programs. Tarena International is based in China.

Reason for being selected: Representative for the IT training.

#### No.4 Beijing Juren Education Group

Juren Education Group is a private education group providing a variety of tutor services for the students aged from 1 to 18 years old, such as math, English, Arts, sports, entrance exam preparation, writing, computer, etc. It also provides other online distance education training services for the adults.

Established in 1994, the Company currently employs over 100 education experts and over 4000 full-time and part-time in more than 100 teaching outlets in cities like Beijing, Shanghai, Nanchang, Wuhan, Xi'an, Shijiazhuang, Zhengzhou city and so on.

Reason for being selected: the largest company in extracurricular tutorship for primary, middle and high schools.

#### No.5 Global Professional Education Online Company

Global Professional Education Online offers a wide variety of online professional training programs and vocational credentialing courses. It is a subsidiary company of the Global Education Group, which integrate the Global IELTS, the second largest language provider in China.

Reason for being selected: the largest company in on-line vocational education training and vocational certification.

## No.6 China Talent Group

China Talent Group is a service provider of human resources service and business process outsourcing. The company offers a wide range of value-added services, including payroll processing, mandatory social insurance and housing funds contribution, supplementary commercial insurance, recruitment, compensation and benefit management, personnel archive management, and professional employee organization service. The company also provides H.R. related BPO services including call center, IT outsourcing, integrated marketing, labor management service. The company sets up over 200 subsidiary offices or representative offices around China  
Reason for being selected: the largest private companies in human resources training and outsourcing.

## No.7 Xueersi Education

Focusing on primary and middle school students, especially on after-school courses, Xueersi International Education (Xueersi Group) has more than 30 service centers and over 70 training schools in cities including Beijing, Shanghai and Wuhan.  
Reason for being selected: the largest company in sub-market of K-12.

## No.8 Sunland Career

Sunland career is a vocational training provider, offering career qualification training, skills training and career-related services. Their offerings cover areas like human resource management, marketing, logistic management, senior secretary, tour guide, accountant, IT certification, psychological consulting, and so on.



Reason for being selected: the largest company in vocational education training and vocational certification.

## No.9 Pinghaitingfeng Training

Pinghaitingfeng Training offers certificate courses for prospective belly dance coaches, yoga coaches and so on.

Reason for being selected: one of the largest companies in body-building and dance training

## No.10 Bainian Shuren

Bainian Shuren Group is a joint-stock company, concerning satellite distance education for primary and Junior Secondary Schools. The company involves in fields such as basic education, continuing education, rural vocational education and minority nationality languages education, dedicated to integrate both domestic and foreign educational and learning resources via satellite communication networks, cableTV networks and via internet. Bainian Shuren Group rents 3MB bandwidth on Sino No.1 satellite's 7A frequency to broadcast IP data and MPEG4 video over more than 100 channels, 24 hours per day, via a satellite station run by its own staff, for it is the only company with the permission to set up satellite operations. The distance education network for primary and junior secondary schools run by the company now covers 22 provinces, autonomous regions and municipalities directly under the State Council<sup>91</sup>.

Reason for being selected: the largest distance education provider for middle and high schools.

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<sup>91</sup> Also available online at: <http://spacejournal.ohio.edu/issue12/wang.html>

## No.11 CG Power Animation School

Established in 2004, CG power is a principal provider of animation education and training, offering digital animation education, designing mathematics, manufacture development and publishing. Their students are often employed by special effect firms, packaging firms, game design studios, television channels, animation design agents, and high schools or training centers. The company also involves in various kinds of productions, such as TV media packaging designing, film special effects, animation design projects, professional rendering, graphic services, and so on. All the training and production also depend on their advanced facilities and high-quality instructors and designers.

Reason for being selected: one of the largest animation design school, also involving in various productions in computer graphic sector.

For diversity, this researcher also selected case subjects representative for the huge amount of small educational companies.

They are **No.12.** Beijing Shine Times Visual Arts Design Company, specialized in designing educational resources and materials;

**No.13** Sunshine DRK Psychology Training, with focus on applied psychology training, offering preparation courses for China national psychological counselor tests as well as professional workshops;

and **No.14.** San Ren Xing education and technology limited, specialized in distant education.

## 5.1.2 Overview of Interviews Conducted

Interviews make up the substantial part of the findings. The researcher interviewed 20 heads or manager of before-mentioned 14 companies and excluded references in the participant's responses that might have identified them, for all names of participants are confidential.

Instead, a rough overview of their positions would contribute to the validity of the interviews conducted, see figure 5-1. Roughly a third of the respondents capture the high office of the company, they are decision-maker or even founder of the company. This is the results of the first two parts of the structured interview.

As for the age of private companies, Yang (2007) examines the age distribution of private entrepreneurs from 1993 to 2005 in China in one of his studies. He finds out that average age of private business owners in 1993 is 42 years old, then it goes up dramatically to 54 in 1995 and to 57 in 1997, but it eventually comes down to 42 in 2005 (p.95). However, as discovered from this research, the education and training industry has seen even younger founders and executives. 58% respondents, who are already executives or managers with a couple of years of experience in Chinese education organizations, are under 35 years old.

Figure 5-1: Position of Interview Respondents

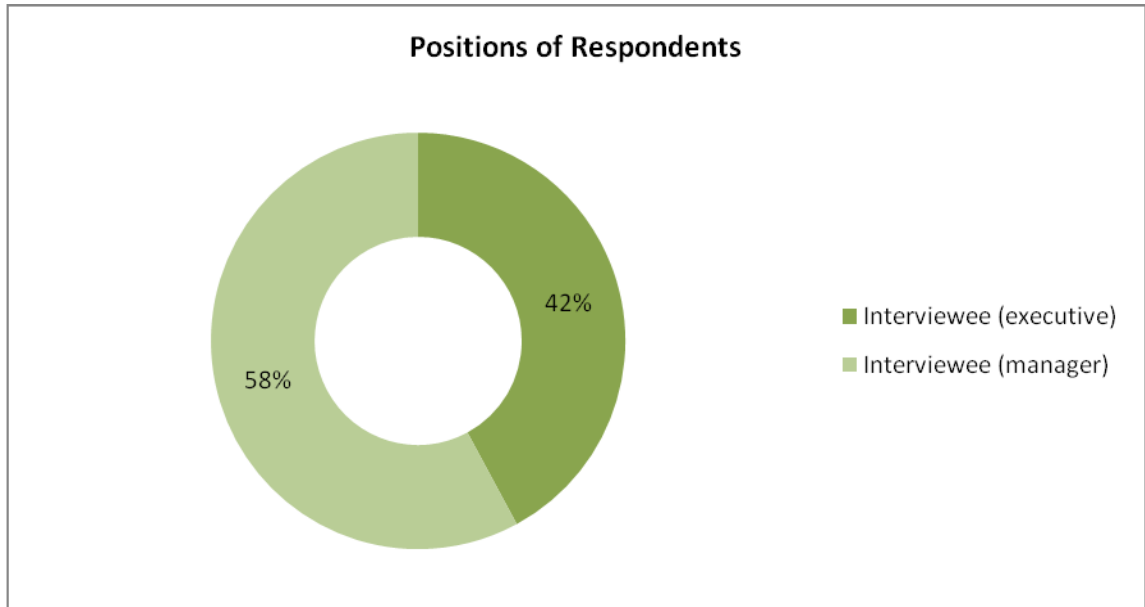
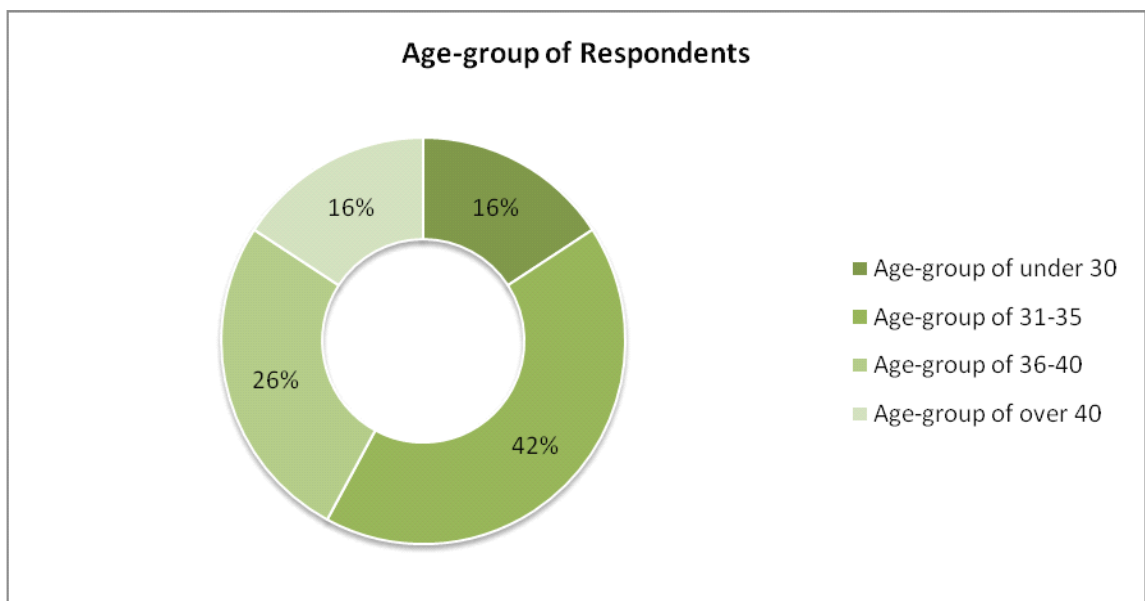


Figure 5-2 Age-group of the Interview Respondents



## 5.2 Tentative Model of Classifying Chinese “Edupreneurs”

The first research objective of this study is to portray the scope and size of Chinese for-profit education sector, and make a tentative classification for “Edupreneurs” operating in Chinese education and training market.

Various sources of information were used for this purpose:

- Standardized interviews. Guiding questions of the interviews, especially “Part 3 Provision” present an opportunity to get a grasp of the whole picture.
- Documents including journalism (newspapers, periodicals); Company website.

### 5.2.1 Classification Model

The fourteen selected case subjects demonstrate the great diversity of companies in the Chinese education and training market. They have different training objectives, target different age-group, and apply varied approaches to education. The range in their sizes results from a number of factors, such as operation duration, financial status and the vision of their executives.

As for business objectives, they provide test-oriented and/or career-oriented training. Test-oriented training concerns the national qualification test, test preparation for certificates granted by certain industrial societies or foreign associations, and so on. Some principal players are involved in both. Some companies, on the other hand only assist students in reaching these training objectives by designing and manufacturing all kinds of educational resources and educational products or by establishing learning platforms -- they are neither test-oriented nor career-oriented.

As for target age groups, they are either serving pupils attending

kindergarten, elementary, secondary level, and post-secondary students respectively, or covering more than one level of education.

Each of these firms publicizes its educational objectives, which are clearly stated to address the needs of the post-secondary marketplace and at the same time, indicate a distinctly different approach to education when compared to existing pre-secondary programs.

The delivery of the training includes both the use of the classroom and the internet for product delivery. The former involves traditional face-to-face instructional approach and the latter refers to instructions assisted by new technological mediums, for example computer-based, internet-based, and so on.

Most of Chinese “Edupreneurs” are small companies. Only a few senior players in the market can be classified as big business with a diversified offering of products and the resources to deliver the offerings. All Chinese “Edupreneurs” are operating in a very diverse market with a diversity of product lines.

Hence, a single dimension of classification would certainly fall short of the mark, when considering the diversity and complexity of educational companies operating in China. A tentative 4 ×3 model for classifying these “Eduprenerus” has been developed for this analysis. These companies are weighed in four dimensions, each with three variables, as elaborated before and presented in figure 5-3, there are:

Dimension 1: Training Objective.

Variable 1: Test-oriented or Career-oriented

Variable 2: Non-test-oriented +Non-career-oriented

Variable 3: Test-oriented + Career-oriented

Dimension 2: Target Group

Variable 1: Pre-secondary

Variable 2: Post-secondary

Variable 3: Both

Dimension 3: Instructional

Variable1: On-line

Variable 2: Off-line

Variable 3: Both

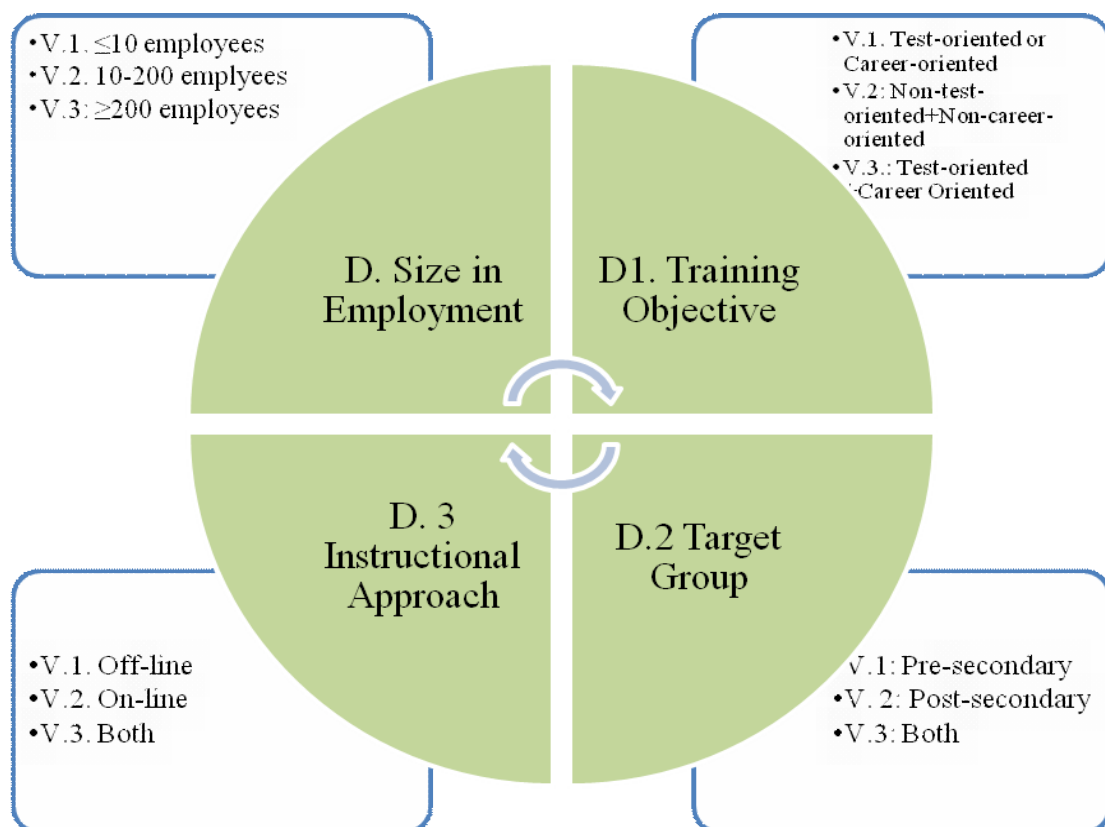
Dimension 4: Size

Variable 1:  $\leq 10$

Variable 2: 10-200

Variable 3:  $\geq 200$

Figure 5-3 4×3 model of classifying (D. stands for dimension; V. stands for variable.)



Notes: For simplification, these variables will be used in abbreviation, i.e.:

T.O.1. stands for Test-oriented or career-oriented

T.O.2. stands for Non-test-oriented and Non-career-oriented

T.O.3. stands for Test-oriented and career-oriented

T.G.1. stands for Pre-secondary

T.G.2. stands for Post-secondary

T.G.3.stands for Pre-secondary plus Post-secondary  
I.A.1.stands for Off-line  
I.A.2.stands for On-line  
I.A.3.stands for Off-line and on-line  
S.E.1.stands for less than 10 employees (including 10)  
S.E.2.stands for more than 10 but less than 200 employees (including 200)  
S.E.3.stands for more than 200 employees

## 5.2.2 Identification of Cases by the Classification Model

This 4×3 model may serve as an instrument to get a quick understanding of any “Edupreneur” in China, exemplified by those selected case subjects as specifically demonstrated in table 5-3. The determined company types may also help to analyze companies with the same dimension, for example, why did companies with digit 3 in variable Size of Employment accomplish faster pace and larger scale in development; what are the similarity and distinction between companies with digit 1 or 2 in variable Instructional Approach. The analyzing process is thus simplified.

## 5.2.3 Further Breakdown of the Classification

The 4 ×3 model of classification is simple and clear. It organizes the 27 types of educational companies operating in China into useful categories. However, the marketplace is rapidly changing and new players are emerging with their own unique characteristics. In a marketplace as dynamic as in China, tentative clustering can only provide a very simplified view, and therefore other aspects of the business can be further examined, and different variables can be further analyzed for more detailed analysis. For example, educational institutions could be further distinguished as instructional educational institutions and non-instructional educational institutions (OECD, 2004).



In the for-profit sector in China, non-instructional educational institutions are also on the rise. These organizations provide a wide range of education-related services such as vocational and/or psychological counseling and planning, placement, testing, financial aid to students, curriculum development, educational research, building operations and maintenance services, transportation of students, and student meals and accommodation.

Diverse educational offerings from “Edupreneurs” covers language instruction, information technology, engineering, fine art, computer graphic, law, and so forth. Therefore, it is inherent that test-orientated education cover numerous types of tests, such as domestic and international tests, nation-wide and local tests, and so on. By the same token, career-orientation education offerings range from pure skill development to a specific vocational qualification.

Table 5-3 Identification of Interviewed Companies by the Classification Model

Type	Company Number	Training Objective			Target Group			Instructional Approach			Size ( employees)		
		T.O .1	T.O .2	T.O .3	T.G .1	T.G .2	T.G .3	I.A. 1	I.A. 2	I.A. 3	S.E .1	S.E .2	S.E .3
<b>3333</b>	No.1.			3			3			3			3
<b>2133</b>	No.2.		2		1					3			3
<b>3213</b>	No.3.			3		2		1					3
<b>1113</b>	No.4.	1			1			1					3
<b>3233</b>	No.5.			3		2				3			3
<b>2213</b>	No.6.		2			2		1					3
<b>1133</b>	No.7.	1			1					3			3
<b>1233</b>	No.8.	1				2				3			3
<b>3213</b>	No.9.			3		2		1					3
<b>2122</b>	No.10.		2		1				2			2	
<b>1212</b>	No.11.	1				2		1				2	
<b>2221</b>	No.12.		2				3		2		1		
<b>1222</b>	No.13.	1				2			2			2	
<b>3321</b>	No.14.			3			3		2		1		

Notes:T.O.1. stands for Test-oriented or career-oriented

T.O.2. stands for Non-test-oriented and Non-career-oriented

T.O.3.stands for Test-oriented and career-oriented

T.G.1.stands for Pre-secondary

T.G.2.stands for Post-secondary

T.G.3.stands for Pre-secondary plus Post-secondary

I.A.1.stands for Off-line

I.A.2.stands for On-line

I.A.3.stands for Off-line and on-line

S.E.1.stands for less than 10 employees (including 10)

S.E.2.stands for more than 10 but less than 200 employees (including 200)

S.E.3.stands for more than 200 employees

## 5.3 Findings Concerning New Oriental Education & Technology Group Inc.<sup>92</sup> (NOET for short)

As stated before, this research intends to feature the Chinese echoes to the trend of For-profit education. The purpose of the study is three-fold, one of which is to portray the scope and size of Chinese for-profit education sector.

In principle, the leading player, the largest and most famous brand with a standing operation history and eminent corporate culture mirrors the scope and size of the target sector, and will help to gain acquaintance and insight. That's why the study will see through the lens of the New Oriental Education & Technology Group Inc.

### 5.3.1 Group Status as of this Writing

This section is the results of cumulating descriptive data concerning the New Oriental Education & Technology Group Inc. (NOET for short). Findings below are derived from:

- Documents – for instance formal publications; study reports, journal articles)
- Archival Records -- for instance inner publications; correspondence)
- Direct observation -- for instance campus visit; classroom visit; corporation building visit; administrative offices visit)
- Interviews -- mainly standardized interviews with 4 middle management and 1 vice president of the Group; these 5 respondents will be marked with number, from respondent No.1 to No. 5, for anonymity.

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<sup>92</sup> The homepage of New Oriental Education & Technology Group Inc.: [www.neworiental.org](http://www.neworiental.org)

These information and thought present a vivid picture of the size and scope of this largest domestic training provider, who is usually titled as “legend”, “example” by the cooperators and competitors in the market as well as by their consumers.

#### a. Organizational Structure

New Oriental Education & Technology Group provides education and training focusing on foreign language training, written and audio-visual publications, overseas education services, vocational education, online education, and the research and development of educational software. By October 2007, NOET develops a network of 36 New Oriental schools around China and 6 subsidiary companies based in Beijing. Its student enrollments have reached approximately 5 million during fourteen-year development. Figure 5-4 is a curtailed organizational chart of New Oriental Education & Technology Group.

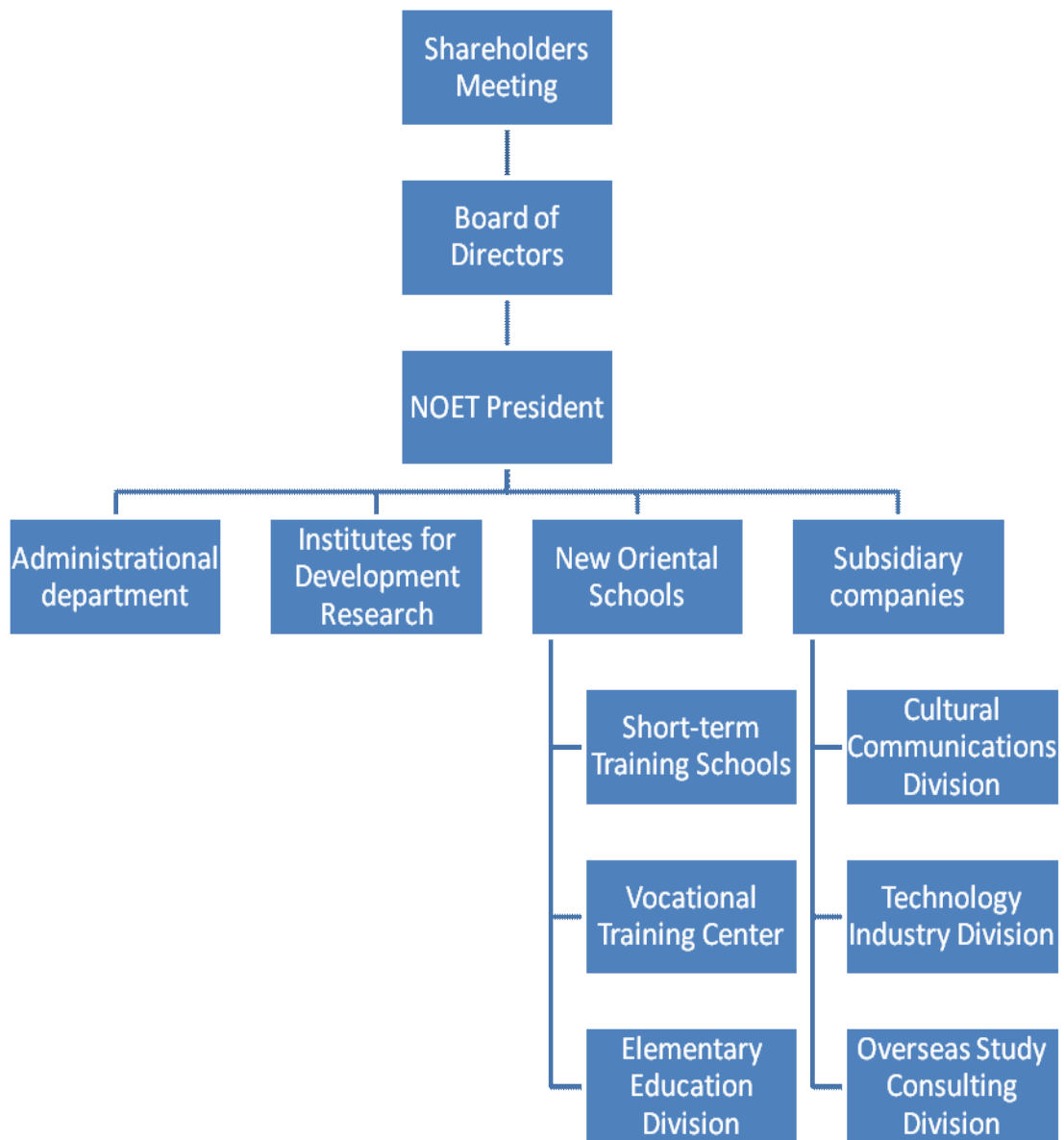
The NOET adopts the Anglo-American model in corporate governance. The Anglo-American model requires a sound equity market, a competitive marketplace, and displays following characteristics:

- The board of directors, elected by shareholders, run the company and direct and oversee the company executives.
- The interests of shareholders could be addressed by their representatives on the board.
- Independent directors are included on the board.
- A more independent board committee is to oversee the compensation of senior management, conduction of audition and board nomination.

· ...

(Chen & Li, 2007, p.238)

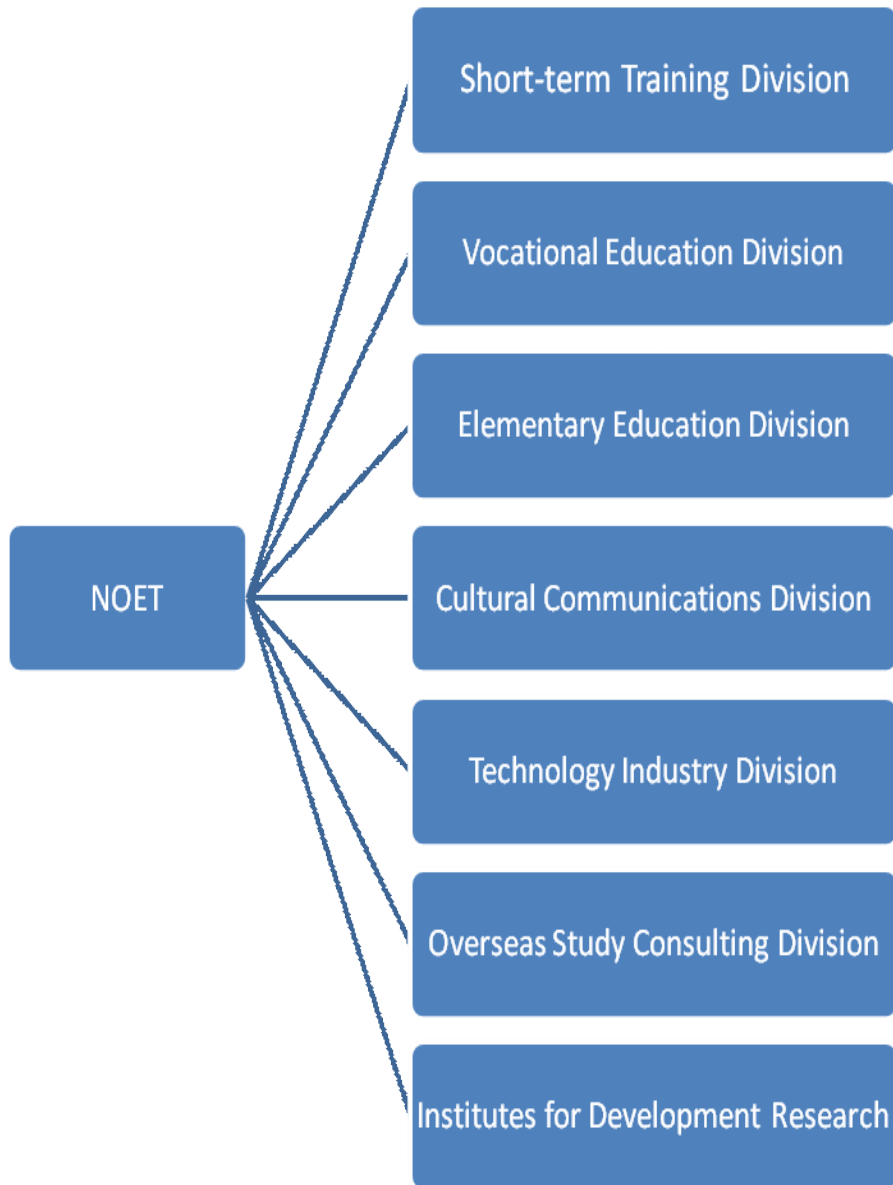
Figure 5-4: Curtailed Organizational Chart of NOET



### b. Further Illustrations of Divisions

The organizational structure reveals the governance of the group. But for comprehension of the scope of their products and services, an examination of divisions is required. There are 7 divisions or internal sub-systems within the group, each with different departments and centers, see figure 5-5.

Figure 5-5: Further Illustrations of NOET's Divisions



The core of the group, the largest division is the short-term training division, also the starting point of this giant group some 15 years ago. The short-term languages training programs refer to 36 New Oriental Schools around China, providing a bundle of test-preparation courses and courses for promoting language skills. The largest four schools locate in Beijing, Shanghai, Guangzhou, and Wuhan. Take the Beijing New Oriental School for example; programs offered include

- Preparation courses for tests from North America, such as TOEFL, GRE, GMAT, LSAT, SAT, TOEIC, and so on.
- Preparation courses for tests from Commonwealth of Nations like U. K, such as IELTS.
- Preparation courses for domestic language proficiency tests, such as CET-4, CET-6, TEM-4, TEM-8, and National Test for Graduate Admission, National Test for MBA Admission, and so on.
- Language proficiency courses focusing on listening comprehension, speaking, and interpreting.
- Language proficiency courses focusing on grammar, vocabulary or comprehensive training.
- Programs exclusively for middle school students, including preparation for national admission tests (equivalent to SAT in U.S.), and language proficiency courses.

Apart from New Oriental Schools, there are other departments within the Short-term training division. POP kids English exclusively serves kids age 4-15 and has already established over 150 POP kids English Learning Centers in 32 cities nationwide. Elite Learning Center serves high-profile English learners with a much higher tuition fee. Other departments of each division are listed below:

Short-term Training Division:

- Short-term languages training programs;
- Elite Learning Center;
- POP Kids English Promotion& Management Center;
- Cool Summer & Winter Camp Management Center;
- One-stop Abroad Service Management Center.

#### Vocational Education Division:

- New Oriental College of Applied English (Adult Education of English);
- North Star Training School (Tutoring for vocational qualification exams such as the PRC Bar Examination, the China Certified Public Accountant Examination, the Accountant Certificate Examination, the Civil Servant Examination and the Tour Guide Qualification Examination).

#### Elementary Education Division:

- Beijing New Oriental Foreign Language School Yangzhou (a boarding school covering 12 grades from elementary through to high school level);
- The International High School of New Oriental (a private school for grades 9-12);
- Beijing New Oriental Star Education Consulting Co., Ltd. (including full-time kindergartens, parent-child classes, early childhood education materials, teacher training, teacher recruitment and outsourcing, and development of teaching materials, educational toys, and other children's products).

#### Cultural Communications Division:

- Beijing New Oriental Dogwood Cultural Communications Co., Ltd. (content provider of English Language Teaching specializing in the production, distribution and retail of books, journals and audio-visual products; two subsidiary companies are Dogwood Bookstore Co., Ltd. And Dogwood Advertising Co., Ltd).



#### Technology Industry Division:

- Kooleran.com (online education service providing internet based courses, a teaching management platform and a multi-media communications platform for both individual users and enterprise customers);
- Beijing New Oriental Bright Future Technology Co., Ltd. (concentrates on the research, development and promotion of educational software).

#### Overseas Study Consulting Division:

- Beijing New Oriental Vision Overseas Consulting Co., Ltd. (engaged in study-abroad consulting services for application to top universities, scholarships, and visa and immigration services as well as study-abroad planning, career counseling, visa application, overseas training, international winter/ summer camps, and immigration application services).

#### Institutes for Development Research:

- New Oriental Education Development Research Institute;
- New Oriental Culture Development Research Institute;
- New Oriental Study Abroad Research Institute;
- Social Activities/ Charitable Events.

### 5.3.2 Revenue and Cost

NEOT 's total net revenues increased from RMB441.8 million for the fiscal year ended May 31, 2004 to RMB770.3 million (US\$96.1 million) for the fiscal year ended May 31, 2006, representing a compound annual growth rate, or CAGR, of 32.0%. And its net income increased from RMB52.4 million in the fiscal year ended May 31, 2004 to RMB142.0 million in the fiscal year ended May 31, 2005. NEOT Went public in NYSE on September 7, 2006. Its initial public offering of 7.5 million American depository shares was priced at \$15 each, topping the expected pricing range of \$11 to \$13, and soared 39 percent after their initial public offering (New Oriental, Website, 2006). Major source of revenue comes from students' tuition. Tuition varies by program or even by class size. For the one-to-one special course, that is one instructor for one student, they charge one thousand RMB per hour, while some 90-hour course charges only eight hundred in total, yet with a far larger class size, normally over 100 students. At the beginning phase of the New Oriental School, popular courses for test-preparation with a class size up to 900 students were not rare.

While the other four respondents claimed that their primary goal was to meet expenses and generate profits by controlling expenses, respondent No. 5 mentions concrete strategies for increasing revenue:

1. Branding: Building brands is an essential part of marketing any product or service. Valuable brand brings about premium. Client's relying on and identifying with the brand consistently engenders brand loyalty. If higher brand loyalty exists, Customers tend to tolerate higher pricing.
2. Book business: Dogwood Bookstore Co., Limited. and Dogwood Advertising Co., Limited, subsidiary companies of NOET are content providers of Language acquisition and cultural communication, specialized in the production, distribution and retail of books, journals and audio-visual products, as well as in the cooperation with overseas publisher group and introducing original books into China.

3. Online education services: Kooleran.com, providing internet based courses, serves as a teaching management platform and a multi-media communications platform for both individual users and enterprise customers. There are approximately two million registered users of the virtual online network.
4. Educational software: Beijing New Oriental Bright Future Technology Co., Ltd. concentrates on the research, development and promotion of educational software.

Again, it turns out that pondering strategies to reduce cost is not every supervisor's concern, as Respondent No. 4 clearly puts it "reducing costs is not my job" and as Respondent No. 3 reveals "the cost is already very slow? low, for example we seldom use any outsourcing service". Specifically, reducing cost means more than reducing "cost of classroom rent and decoration", which is common sense for the program's management.

Instead cost cutting, forward looking programs use strategic planning and integrated marketing by methods Respondent No. 5 has suggested:

- Branding: Nation-wide brand's identity (personality, name, visual identity) brings about premium and reduces average marketing cost in each city or for each program.
- Strategic cooperation with other institutions.
- Increase utilization ration of classroom in arranging suitable size of classroom for corresponding course or enrolling enough students in corresponding classroom.
- Optimize or straighten operation procedure, which will reduce cost in labor and resource. Combine specification and standardization in the design of product and procedure.
- Nationwide customer service and backup support. Customers are the lifeblood of every business.
- Product positioning. Add more value to specific product.

### 5.3.3 Provision

NOET provides a wide range of educational programs, services and products consisting primarily of English and other foreign language training, test preparation courses, primary and secondary school education, development and distribution of educational content, software and other technology, and online education.

Offerings can be broken down into three categories (Respondent No.2, No.3):

- As leader: Offerings like preparation courses for tests from North America, such as TOEFL, GRE, GMAT, LSAT, SAT, TOEIC, and so on; preparation courses for domestic language proficiency tests, such as CET-4, CET-6, TEM-4, TEM-8, and so on.
- As competitor: Offerings like preparation courses for tests from Commonwealth of Nations like U. K, such as IELTS; language proficiency courses focusing on listening comprehension, speaking, and interpreting; language proficiency courses focusing on grammar, vocabulary or comprehensive training.
- As follower: Offerings like childcare; after-school tutoring middle school students, including preparation for national admission tests in China; Language training of German, French, Spanish, Japanese, and so on.

#### a. Process Design in the Short-term Training Division

The earliest and the most profitable division of NOET is the short-term training division. There is a fixed process within the division from the first moment a student enters into any one of an enrollment center. The students' first contact is an enrollment counselor who assesses the learning needs and

suggests a couple of training programs that would address the students' needs and wants. Enrollment counselors are, in a way, customer service representatives. They answer questions involving training programs, course structure, fees, training location and other services and regulations.

After enrollment, students are assigned a study number as well as a seat number, and given an attendance card, with which students are allowed to enter the classroom, and a "head teacher" for each class will check the card prior to class. A "head teacher" is actually not actually a teacher, but an administrator for class routines. They monitor the courses in order to assure that everything is going well, from the electronic equipment to the actual instruction order.

All courses have a trial period, during which students can withdraw the enrollment and receive the fee back. After this period, ranging from one to four lectures, students can never withdraw the enrollment, but they are entitled to transfer to other courses, in the basis of their wishes and relative regulations of NOET.

In certain programs, students get a certificate or prove that they have met course requirements. For example, NOET issues a language certificate after 800 hours of instruction and that certificate is a prerequisite when applying to German universities.

Students can get a discount if they have registered in a course provided by NOET before, or get a reward or scholarship if they achieved high marks after taking any kind of test-preparation courses from NOET.

## **b. Development and Update Process of Program and Curriculum**

According to respondents, all proposals for developing a new program in Beijing must be approved by the Office of the Headmaster (Respondent No.1,

No.2, No.5). This principle applies to other schools in the short-term language training division as well.

The head of a department is one who leads the program development, course design and textbook selection process. “What’s central in the first phase of program development or update, is the needs reports of clients, which require specific statistics to justify the program development.” says Respondent No. 1, “The ways of detecting clients’ demand depend largely on efforts of the marketing division, such as a questionnaire, telephone inquiry, interviews and so on”. The head of the department also sets standards for the course and train the instructors.

Next, instructors are chosen and assigned to develop their own syllabus. Standardized test-preparation textbooks are introduced to the programs, in line with scripts of each instructor. Other language proficiency courses also cooperate with large international textbook producers and publishers like McGraw-Hill Companies, Inc., by using and localizing their English textbooks. After the primary design of the program or curriculum, there’ll be assessment from experts and senior management.

### 5.3.4 Instruction

“Economic” or “academic”, that is the question. Respondent No. 2 revealed that research in NOET is instruction-oriented, aiming at improving the quality of instruction. NOET believes that the quality of the instruction is the foundation of their students’ future success, as well as the foundation of the company’s economic success. Academic research serves only to supplement its present offerings, however, a publicly stated goal of a founding member of NOET is to one day establish a private university.

There are two major ways of instruction, face-to-face and online. Face-to-face instruction consists of On-Campus courses (serving local students who are residents of a certain city) and in-residence courses (providing accommodation for students from other cities). Online courses are internet-based educational products and can be purchased via the Internet.

Now that the number of NOET affiliated school has reached 40, the instruction management division manages internal communications and connections between schools, including communication among instructors; common textbook problems; course planning issues and even promotional approaches (Respondent No. 2, No.4).

Learning structure in NOET has changed as this institution grows.

- Scheduling: For many years, most of the courses took place on weekends, at night, and during the vocations. But now, these are courses are available every day 24/7.
- Student body: In the early days, the student body of NOET was made up of adults and mature college students, who had clear goals for taking language proficiency tests and going abroad. These students were representative of self-directed learners, who are typically independent, willing to take the initiative and persistent in the learning process. They have self-discipline, self-confidence and the desire to learn more. As a

result, they are able to organize their time, develop their plans for completion, and are goal-oriented. Nowadays, NOET attracts students from a diverse age group, all the way from toddlers to people in their forties even fifties.

- Class size. Giant class sizes, sometimes amounting to 900 students in one room, has ever been a defining feature of the young NOET. It represented a courses' attraction and an instructors' charm, once upon a time, but now fades away under today's pressure for individual experience and value. The new trend is that smaller the class size and a higher the tuition.

All respondents consider that teacher's role in operation as the most important factor in instruction and in the success of the company. "NOET employs approximately 15 thousand instructors and staff around China, of which more than 50% are part timers. This explosion in the number of employees clearly reveals the rapid development of the Group, since NOEF had only 3000 employees before being listed on the NYSE", according to Respondent No. 5.

Their instructors are famous for creating a "New Oriental Style", referring principally to their passion, sense of humor and so on. They are original, learned, brisk, versatile, and speak fast. In order to build up and keep a high-qualified faculty, NOET adopts strict recruitment and comprehensive training program.

Respondent No. 1 initiated group preparation of courses and instructors are organized to deliver the same content. "It is more fun cooperating than competing." says Respondent No.1, "That way everyone benefits from the process. Those who refuse to participate or make the most of the chance will eventually become obsolete, for the rest of the instructors are improving bit by bit."

Another approach to keep a high-qualified faculty is through training (Respondent No. 2, No.4):

- Training for new instructors or before-service training;



- Training for senior instructors or on-service training incorporating individual demonstration and colleague's evaluation in meetings;
- Buying courses of certain topic from other professional companies;
- Overseas training.

Respondents point out unanimously two categories of career path for faculty:

- Professional Ladder: These are faculty hierarchy in design, from junior instructor, middle instructor, senior instructor, to star instructor, trainer of instructors.
- Managerial Ladder: Excellent faculty members are likely to be chosen to join management and involve in making needed innovations and changes in the organization.

Then what is the secret to promotion in this giant enterprise that has thousands and thousands of talented instructors? As Respondent 1 and Respondent 5 assert, there is no explicit promotion principle, but the companies are definitely performance-oriented and on the lookout for talented individuals who produce the best results from their efforts. "Striving to be No.1 is what you have to do; then everything will fall into place." asserts Respondent 1, speaking from his own life experience.

### 5.3.5 Quality Assurance

The assessment serves as a primary approach of quality assurance in NOET. The assessment in NOET does not refer to traditional assessment practices for student's learning, which are traditionally occupied by tests, exams, and other forms of assessment. Instead, NOET focuses on evolving new modes like: "performance assessment, portfolios, learning logs, self-assessment, peer assessment, group-work assessment, and oral/poster presentations" (Havnes & McDowell, 2007, p.6).

NOET uses a grading system in which all instructors are assessed at the end of their courses by their students; the graded is scaled from one to five, with five as the best and one being the lowest grade. Additional information in this assessment includes the recommendation rate and the drop-out rate for the instructor. The recommendation rate involves the percentage of students who recommend a particular instructor; the higher the recommendation rate, the higher the grade. And the drop-out rate refers to the percentage of registered students who drop out after the free audition class, because students may obtain a full refund after the first free audition class if they're not satisfied with the performance and/or service. In addition to grading, the students are also asked to recommend the one instructor whom they prefer over all others. The result of this assessment process then decides whether or not a new teacher is made a regular employee and also determines if a bonus is to be paid to the instructor.

Besides, students' outcomes or students' satisfaction is guaranteed by other approaches like:

- Telephone interviews during and after courses with students (Respondent No. 1, No.2, No.3, No.5) as well as with the parents of the students (Respondent No. 1);

- An internet platform which allows students and parents to track course updates as well as the student's. This kind of information is routinely updated by an assistant instructor and can be checked by both students and parents, both online and in person. (Respondent No. 1).
- An email address for complaints and suggestions (Respondent No. 5);
- Open hour or Open day for students (Respondent No. 5);
- A national customer service system (Respondent No. 5);
- The maintenance of a "file-for-life" for each student (Respondent No. 5).

This quality control system has done much to assure the quality of the educational products offered, however, according to Respondent No. 5, this service also creates some disservices. For example, the strict control of the process inevitably expands the company's bureaucracy and therefore increases operating costs. Additionally, the rigid evaluation process can result in uniformity of teaching methods and sometimes inhibits creativity among instructors, and this process also has negative effects on the quality of intercompany communication.

### 5.3.6 Management (SWOT Analysis)

A SWOT analysis, which analyzes the strengths, weaknesses, opportunities and threats faced by a company, is deemed an effective means with which to analyze the effectiveness of a company's overall operation and management. The following will use the SWOT method to analyze NOET and the others responding companies.

#### Strengths

The Chinese education companies surveyed aim to help their students enhance their future possibilities by focusing on their companies' core competencies in order to enhance their products' effectiveness. Their measurement of core competencies include: the best instructors (all Respondents), the best delivery channels (Respondent No. 5), and the best brands (all Respondents).

A good example of NOET's delivery channel construction is the international network they developed, which includes over 40 schools and 400 learning centers in cities around China.

In order to maintain competitive advantage, NOET attaches a great deal of importance to attracting and training talented employees (all Respondents agree), thereby assuring their clients' satisfaction (all Respondents agree), and at the same time, standardizing the operational and management procedures necessary to achieve their goals (according to Respondent No. 4 and No.5).

In order to achieve their goal of being the premiere educational brand in the world, Noet focuses on these core competences to help shape NOET's business model, which thereby helps students enhance their future. This is accomplished by rewarding and encouraging their best instructors, which thereby insures that NOET provides the optimal services necessary.

Respondent No. 5 emphasized that standardization does not mean refusing to change existing procedures, but rather, standardization is used to maintain a continuous perfection of their procedures in order adapt to the growing challenges from inside and outside the company.

NOET has been using this evolutionary process to create a first-class brand image in the eyes of its students and investors. Table 5-4 describes the brand image of NOET in the eyes of the respondents as measured by four key categories: the perceived brand image in the eyes of students and investors compared to an ideal brand image.

The actual brand images informs management of its effectiveness in the marketplace and the ideal brand image category describes the goals on which NOET must focus in order to achieve brand dominance.

## Weaknesses

Well-planned strategies are not always wellexecuted. One major reason for this is that NOET has been growing too fast to and therefore too unstable to maintain its desired focus on core competencies, especially in in the area of human capital. As Respondent No. 5 points out, after being listed, revenue per year as well as the number of employee in NOET has at least quintupled.

Another weakness lies in that the brand image of NOET is unitary, which is highly parallel to its traditional advantageous offerings like preparation courses for tests from North America, such as TOEFL, GRE, GMAT, LSAT (Respondent No. 3). In other words, the brand of NOET is labeled with the best provider of TOEFL and GRE preparation course. This unitary image is actually compromising current branding of NOET.

## Opportunities

NOET's most valuable assets are: its talented employees, its brand's value, and its experience in the education and training market. Respondent No. 5 believes, NOET will maintain a leading role in its present areas of expertise and gain an upper hand in emerging markets in the educational marketplace, by focusing on the afore-mentioned assets, especially when coupled with a sound business plan and a plan for the utilization of its most talented employees.

"Some traditional textbook-based courses could also see a new surge of growth if they highlighted the client-centered principle", says Respondent No.1; who also believes that future profits will be derived from diversified and individualized services, like one-to-one after class tutoring.

Moreover, other NOET offerings, like long-term training and online instruction, deserve more attention, right now NOET is mainly known as the king of short-term language training (Respondent No. 1).

## Threats

The most urgent threat or challenge comes from the inside from NOET itself. Can NOET remain flexible enough to respond to changes in the marketplace and retain its talent pool is its greatest challenge according to Respondent No. 5. However, in the eyes of Respondent No.2 and No.3, NOET is already faced with challenging competitors in a few of sub-markets. The primary threat to NOET is a "lack of innovation" due to inflexibility as more nimble competitors "eat their lunch", according to Respondent No. 1.

Table 5-4 Images of NOET in the eyes of students and investors from the Respondents' viewpoints

Respondent	<b>Actual</b> image in the eyes of <b>students</b>	<b>Ideal</b> Image in the eyes of <b>students</b>	<b>Actual</b> image in the eyes of <b>investors</b>	<b>Ideal</b> image in the eyes of <b>investors</b>
No.1	Passionate; encouraging; humorous; practical;	“Palace” in stead of “market” of language acquisition; Formidable research team; solid academic foundation;	No competitors even though microscope	No competitors in the long run
No.2	Responsible; vigorous; effective;	Responsible; vigorous; effective;	Profitable	Profitable
No.3	Messenger between cultures; Destiny-changer;	Messenger between cultures; Destiny-changer;	Profitable	Profitable
No.4	Encouraging spirit; language expert; diversified offerings; representing idea and ideal	Comprehensive operation; better representing idea and ideal	Profitable	More profitable
No.5	Interesting; fun; effective and useful	Spirit home for students and staffs	Powerful brand; popular among students; successful in diversified attempt in business	More profitable

### 5.3.7 Corporate Culture

NOET emphasizes its spirit, vision and mission. This ethos is generalized as follows: “New Oriental strives with all of its energy for constant improvement. It embodies a pioneering spirit, boldly looking forward, and pushing ahead without looking back. We believe that, as everything in this ephemeral world fades into the oblivion of the past, the only thing that remains treasured in our hearts is that which we earn with our hard work today. In the years to come, using our heads but guided by our hearts, learning from past failures and successes alike, we shall apply ourselves toward an ultimately brilliant success.” The vision and mission is expressed as:

- Becoming an outstanding educational organization
- Educating the next generation of Chinese leaders
- Promoting cultural exchange between China and the world

Respondent No. 1 comments that it is the powerful culture that glues the group together, and “the advantage of culture outweighed the management mechanism before being listed.”



### 5.3.8 Key to Success

Respondent No. 5 defines NOET's success as threefold:

- Performance success of the students—a case in point is that numerous students see a new page of their lives by being accepted by renowned domestic and overseas universities;
- the successful careers of talented employee working at NOET—NOET's teachers are identified as rich and capable among their peers;
- and the economic success of the enterprise. The economic success and social influence of NOET has long been considered a miracle produced by the times and opportunities which cannot be duplicated.

Among all the plausible factors to NOET's legendary success, two are deemed as the most important: unique and talented Instructors and the recognition and exploitation of opportunities.

#### a. Unique and Talented Instructors

It is widely acknowledged that the prosperity of NOET relies heavily on its unique and distinguished instructors, especially in its early phase of development. Those legendary instructors might not have held superior degrees from renown universities, but their intelligence and sensitivity in language studies, have transformed the anguish of the learning process into a joyful experience, primarily by using their sense of humor and by encouraging their perplexed students to persevere.

Now, new generations of NOET instructors have inherited the traditions of humor and passion from the past instructors and at the same time display a new bundle of characteristics, defined by their overseas experience and/or their excellent of academic achievement.

The instructors in the New Oriental School, though young in experience are nonetheless well-paid. Some “Star” instructors can receive over 1200 RMB for two and half hours of teaching, nearing the first month’s salary of a newly graduated college student.

Although more and more educational equipment: like computers, projectors, and other educational technology have been added over time, teachers continue to be the most important resource for student instruction. The group of unique and high-quality instructors is the heart and soul of NOET.

NOET’s principle of student-centeredness is articulated by their creation of a team of unique and talented instructors, according to Respondent No.1; who also asserts that the charisma of the instructors is what appeals to Chinese students the most. Therefore, in China, the effectiveness of the teacher has a profound impact on the student’s ability to learn successfully (Rivkin, et al, 2005; Rothstein, 2007).

## b. Opportunity Recognition and Exploitation

NOET started in the early 1990s, when the effects of economic reform began to manifest in China and ongoing developments of reform penetrated all aspects of Chinese life. At this time, the importance of English, English language teaching and English test preparation became a big part of the educational agenda (Lamie, 2007, p.82). At the same time, notions like personal interest, material incentives, and economic efficiency became familiar to most Chinese, along with the philosophy of consumerism. As people became to become wealthier, they were able to afford a better education and began to pursue more favorable educational opportunities, even in face of higher than normal tuition. NOET captured the evolving market opportunities by analyzing and addressing the needs and wants of those aspiring to better educational opportunities.

Bauer and Liu (2006, p.37) conducted a survey, measuring a series of consumer attitudes, lifestyle activities, personal values, and so on. This study tried to determine the possible dimensions of consumers' life patterns and to cluster those most profound factors. Out of a total of 97 items, statements with factor loadings over 0.5 have been selected; at the same time, the selected statements have been sought out repeatedly in order that the total cumulative variance became 50% or higher. There were 25 items retained and a nine-factor solution of life patterns emerged. Table 5-5 shows the emerged factors with part of the factor loadings and cumulative variance percent.

Table 5-5: Emerging Factors of Urban Chinese Consumers' Life Patterns

<b>Factor</b>	<b>Items loaded on each factor</b>	<b>Factor loadings</b>	<b>Cumulative %</b>
<b>Factor1: Advertisement-conscious</b>	Ad is absolutely necessary in daily life.	0.594	16.05
	I like the ad on TV.	0.728	
<b>Factor2: Opening life-conscious</b>	To attract heterosexual sight is my favorable feeling.	0.643	27.27
	I yearn towards the lifestyles in developed countries	0.833	
<b>Factor3: Fashion-conscious</b>	I prefer fashion to practicality.	0.623	34.38
	I am a pioneer to buy the newest technical products.	0.748	
<b>Factor4: Career-conscious</b>	I place a lot of hope on my personal career.	0.794	40.08
	Women should have personal career like men.	0.758	
<b>Factor5: Price-conscious</b>	I usually compare the price in several shops before shopping.	0.741	45.16
<b>Factor6: Family-conscious</b>	Women's main role is to make a happy family.	0.563	49.62
	I like spending my time with my family.	0.743	

<b>Factor7: Impulse-consci ous</b>	Sometimes I like to buy something I don't need.	0.814	53.91
<b>Factor8: Financing-cons cious</b>	This risk of stock and shares to me is great.	0.826	58.12
	I prefer to deposit in the bank if I have surplus money.	0.776	
<b>Factor9: Money worship-consci ous</b>	I can give up leisure time to earn more money.	0.655	62.12
	Money is the optimal standard to weigh up success.	0.795	

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. Rotation converged in 6 iterations.

According to further clustering and analyzing of Bauer and Liu (2006, p.137), there are four cluster of Chinese consumers: Wealth oriented (Yuppies), tradition oriented (Traditionalists), status oriented (Careerists), and fashion oriented consumers (Fashioners).

- Yuppies tend to prefer a more opening lifestyle and leaning toward the lifestyles of Western people.
- Traditionalists represent the largest group of urban Chinese consumers and they tend to prefer practicality over fashion and value job security. They are family oriented and hold to traditional Chinese values for personal activity.
- Careerists work hard to achieve success in their careers and place a high value on professional advancement.
- Fashioners tend favor trendy fashions and glitzy lifestyles.

These clusters reveal an intriguing trend in the Chinese education and training market. In the early 1990s, the Yuppies accounted for the first adopters of language training in order to prepare for TOEFL and the GRE. Acing these

tests was the first step towards an overseas degree and life outside China. This was NOET's target market and one in which it excelled

The late 1990s witnessed the proliferation of language training programs at a lower the average price. A textbook titled New Concept English ranked as a best-seller many years and courses using this textbook normally cost ¥ 400-600 for 90 hours of lectures; however, costs varied by what the market would bear in different parts of the country.

Traditionalists were more likely to invest in the lower priced offerings for themselves, but would invest more money into their children's education. The price-sensitive Traditionalists, also being very family-oriented were willing to invest more heavily in the future success of their children rather than their own, which is why training programs for young children and teenagers kept on expanding, even to this day.

Likewise, the consumer oriented group of Careerists contributed to the emergence of vocational training programs. The North Star Training School offered tutoring for vocational qualification exams such as: the PRC Bar Examination, the China Certified Public Accountant Examination, the Accountant Certificate Examination, the Civil Servant Examination and the Tour Guide Qualification Examination.

The Fashioners sparked the emergence of high-profile training, as found in the Elite Learning Center, where the ambiance of the learning environment, trendy courses, and fashionable student events were the main focus.

NOET cut through to the essence of the marketplace circumstances by addressing the needs and wants of different consumer clusters and by pacing its offerings with the ongoing economic and social transitions.

## 5.4 Analyzing Other Case Subjects

The second purpose of this study is to outline Chinese for-profit education as a whole, therefore other cases must be incorporated into this work. These qualitative findings and results are grounded in the data, sometimes highly structured data like cross case comparisons, and sometimes “soft data” such as anecdotal data and narratives (Shank & Brown, 2007, p.144).

Findings concerning the other 13 cases, which involve 14 respondents, together with findings concerning New Oriental Education & Technology Group, serve to provide an overview of the landscape of Chinese “Edupreneurs” and offer insights into the yesterday, today and tomorrow of Chinese “Edupreneurs”.

While reviewing the transcript of the audiotapes of the structured interviews, the author counted the frequency of occurrence of ideas, themes, and words and noticed the repetition of certain phrases and explanations, such as: “young” (10 times); “not concern too much about corporate culture” (7 times); “aiming to go IPO (9 times)”; “tuition as major revenue source” (13 times). These frequently repeated phrases represent the similarities of thinking within the educational companies interviewed.

Additionally, some repeated phrases represent splitting variables, which are elaborated by the authors in distinctive patterns. These patterns include “Diversity vs. Conformity”; “Universalization vs. Specialization”; “Institutionalization vs. Efficiency”; and “Stratification”. Thus, the *present* or status quo of Chinese “Edupreneurs” is narrated in two groups of features: similarities and distinction within the educational companies interviewed.

At the same time, a number of ideas articulated as “instruction”, “teachers’ role”, “class arrangement”, and so on, will help elucidate two key concepts: “Innovations” and “Restraints”. The innovations that Chinese “Edupreneurs” have accomplished in comparison to the traditional methods of education will

be discussed, because it is their innovations that distinguish their achievements, while the restraints Chinese “Edupreneurs” are experiencing highlight how to use restrictions for even further innovative development.

#### 5.4.1 Similarities

The dynamic interaction between an organization and the environment, for example, to attain or increase legitimacy, can lead to structural similarity and isomorphism through imitation etc. (Christensen, Tom & Lægheid, Per, 2007, p.20). Analyzed from the new institutionalism perspective, the organization of an educational institution follows certain institutionalized techniques for hiring personnel, creating departments, building curricula for instruction, etc. These techniques operate along rationalized and impersonal underlying principles; they are “prefabricated formulae available for use by any given organization” (Meyer & Rowan, 1977, p.344), which explains why similarities between the case subjects become more obvious. These similar characteristics point to what new institutionalism called “isomorphism”; and the evolving process is called “isomorphic change” (see chapter 3.4.1), which is how enterprises come to resemble each other in the same marketplace. Chinese “Edupreneurs” are so constrained by the environments and the features of the education sector in China, that they tend towards the adoption and retention of analogical patterns and operations. In addition, the dominant values, policy priorities, and structure design during a given historical periods in the realm of training business, also has pushed them to ape prevailing archetypes.

##### a. Operation Duration

Most of the educational companies were start-up enterprises, founded within the past five or six years, see figure 5-6. As the figure shows, the year

2003 and 2004 witnessed a large amount of “Edupreneur” start-ups. Another notable date was about ten years prior, around 1993 and 1994. Companies founded in that period of time either developed and grew rapidly in size and reputation, or failed in the furious completion. These two distinctive periods in the Chinese education marketplace also parallel two major political changes that resulted in the development of the private sector economy in China.

Figure 5-6 Founding Years of the Companies Interviewed



The first major political change was marked by Deng Xiaoping’s tour of Southern China in 1992, in which he untiringly reaffirmed the commitment of Chinese government to economic reforms and supportive policies for the private economy. The tour and his friendly, encouraging attitude sparked a boom in the private sector. According to Tian (2007), from 1993 to 1999, the number of private-owned enterprises rose by 6.2 times, employment in private-owned enterprises by 5.4 times, the assets by 15 times, the value of retail sale of consumer goods 22 times, and the output value of private-owned enterprises increased by 18.2 times (p.277).



The educational instruction sector also kept pace of this trend of reform and opening up. The 1993 Outline of Chinese Educational Reform and Development for the first time legitimized a system centered on the government's oversight of schools instead of government monopoly of running schools. And the 1995 Education Law stipulated that "the state encourages enterprises and institutions, organizations, economic collectives, and individual citizens to set up educational institutions according to the law" (Ministry of Education, 2003, 2004). As a result, new private schools were soon established; many charging a higher than average tuition and adopting advanced technology and instructional methods. Soon after, various forms of private provision—named *minban* in Chinese—sprang up. By the end of 1995, private kindergartens rose to 20,780, private primary and secondary schools 3159, private vocational schools 672 and *minban* universities 1209—among which 21 were degree-granting. The most dramatic rise came in the establishment of 35,000 private short-term training schools (Lin, 2007, p.45).

The second driving force of change was the passage of the "Minban Education Promotion Law" in December 2002. People-run education (*minban*) or social forces-run education (*shehui lilian ban*) services have been booming ever since (Pan & Law, 2006). By 2008, private kindergartens have risen to 83,119, primary schools 5760, regular junior secondary schools 4408, vocational junior secondary schools 7, regular senior secondary schools 2913, vocational senior secondary schools 3234, *minban* higher education institutions 1506. And *Minban* training institutions reached 19579 (Ministry of Education, 2010).

## b. Corporate culture

Corporate Culture is the obvious weak link in most young educational companies in China as demonstrated in figure 5-7.

Half of the respondents claim that companies choose to sacrifice or ignore the corporate culture aspect, for the purpose of concentrating all resources on achieving revenues and market share. In other words, visible gains in terms of profit and expansion far outweigh invisible but long-term drive of a business in the company agenda. Respondents No.18, No.19, and No.20 believe that it is not the business of small firms to talk about corporate culture.

A third of Respondents suggest that their companies have already taken to creating corporate culture seriously. They deem New Oriental Education & Technology Group as a good example of benefiting from corporate culture, the so-called “Spirit of New Oriental”, which widely spread among students and helped to encourage most of them. “Hew a stone of hope out of the mountain of despair and you can make your life a splendid one”, is pervasive and valued as the credo and spirit of New Oriental (Respondent No.9 and No.10).

Figure 5-7 Stress on Corporate Culture



It turns out in these interviews that those who are more successful in operation would value and stress corporate culture more. In return, those who value and stress corporate culture more could develop faster and more successfully.

This phenomenon results in part from the so-called coercive isomorphism, where organizations are gripped by the common formal and informal pressures, current or expected, exerted by the government policy changing or

ferocious competition in the market. They are obliged to make sacrifices while making choices. At the same time, this decision depends also on the leaders vision and how much corporate culture is valued right in the middle of furious competition, thereby helping to determine whether it is a liability or assets.

### c. Goal Setting for IPO

Most of the companies interviewed, with the exception of Respondents No. 18, No.19, and No.20, have a stated goal of going public by being listed on the stock market. Their approaches to achieving this goal are mainly aimed at “increasing per-student revenues” (Respondent No. 9, No.17), “attracting a higher-caliber student body” (Respondent No.13), “improving student services” (Respondent No. 13), “increasing enrollment” (Respondent, No.9, No.10, No.14, No.15), “enhancing the productivity of the faculty” (Respondent No.9, No.13, No.14), and so on.

Yet, little has been said to justify this IPO planning as long-term, except to attract more funding or gaining more legitimacy and reputation. There has been little analysis to determine if the IPO would actually complement or degrade their operational effectiveness. Especially since the example set by Chinese public companies, where trading on an international stock market becomes the primary criterion for legitimacy and success (Wang & Liu, 2004). This can be seen as a signal of mimetic isomorphism, where these young enterprises model themselves after senior players who are perceived to be more legitimate or successful. By entering into an organizational field, an organization becomes exposed to stresses to adopt certain patterns of behavior in order to achieve legitimacy and obtain resources (Borum & Westenholtz, 1995, p114). Chinese companies view listing as a privilege and as a fund-raising mechanism (Tenev & Zhang, 2002, p.110). Yet, what stock exchanges would create in terms of “governance, rules, conduct codes and a

process of investigation, discipline, prosecution and enforcement” (Peláez & Peláez, 2009, p.155) seems less of the concern of these Chinese “Edupreneurs”.

In contrast, going public has never been among strategic objectives of traditional higher education institutions. A study in 2005 which surveyed presidents, chief academic officers, and chief financial officers at a multitude of U.S.-based higher education institutions reported their most important strategic objectives (Bassett, et.al, 2005, p.13), see figure 5-8. Improving student learning outcomes ranked top one. Interesting enough, a couple of strategic objectives in figure 5-8 are actually before-mentioned approaches of Chinese “Edupreneurs” to achieve the goal of going public.

#### d. Business Model

The majority of the Respondents admit that revenue generated chiefly comes from tuition. Other sources of revenue include developing and selling digital learning devices, designing educational materials, and so on. Efforts have not been spared in the quest for new profit-making modes, but with few positive results. This can be identified as an interpretation for normative isomorphism, largely depending on the elaboration of professional networks and the feature of the education and training industry.

Figure 5-8 Most important strategic objectives

Rank	Strategic Objective
1	Improve student learning outcomes
2	Attract/retain faculty
3	Improve fundraising
4	Improve retention rates
5	Improve use of data for strategic decision support
6	Increase enrollment
7	Enhance productivity of faculty and administrators
8	Improve student services
9	Improve business processes
10	Improve communication with stakeholders outside the institution
11	Attract grant funding
12	Improve communication with stakeholders inside the institution
13	Enhance relationship with local community
14	Comply with regulatory mandates
15	Increase innovation
16	Stabilize/contain per-student costs
17	Improve returns on investments
18	Improve affordability
19	Improve access to education for the community
20	Increase per-student revenues
21	Attract a higher-caliber student body
22	Support community workforce development
23	Improve standing in competitive rankings

#### 5.4.2 Distinction

Clustered by a simplified 4×3 classification model alone (see chapter 5.2), the landscape of Chinese education and training industry has been already blessed with 27 different types of “Edupreneurs”, and even more features after market segmentation is considered. Hence, differentiation is the middle name of Chinese “Edupreneurs”. Based upon the repetition of certain causes or constructs derived from the interviews, it seems that by splitting variables one could be elaborated even more distinct patterns distinctive patterns. These patterns include “Diversity vs. Conformity”; “Universalization vs. Specialization”; “Institutionalization vs. Efficiency”; and “Stratification”.

## a. Diversity VS. Conformity

There have been three phases in the development of higher education in modern China, they are: elite education, popularization, and universalization. The quantitative norm for the “popularization of higher education” is the gross rate of enrollment in higher education reaching 15 to 50 percent of the population in China. A rate lower than 15 percent is an indication that the marketplace is in the phase of elite education and higher than 50 in the phase of universalization (Pan, 2007, p.93). Qualitative connotation of the popularization concept includes “broadening the functions of education, diversifying the patterns of education, and a series of changes in academic orientations, course offerings, teaching ways and methods, enrollment conditions, management methods, and the relationship of higher education to society” (ibid. p.93).

As China strives for the popularization of higher education, “Edupreneurs” in the education and training market are also bestowed with chances to compete and create. They provide diversified form of schools operating outside the traditional full-time undergraduate education, like vocational and technical education (Respondents No. 9, No.11, No.14, No.15, No.17, and No. 19), preparation course for higher education self-study examinations (Respondents No. 11, and No.14), and non-credential education (Respondents No.10, No.13, and No.20).

In addition, other types of educational diversity involve instructional style, age range aspects, and workforce diversity. Instructional plurality concerns the design of the syllabus and class arrangements. Instruction is never neutral, which is why many institutions encourage their faculty to be creative and original in their syllabus design as well as content delivery. Diversified styles of education clearly indicate that schools do not emphasize a particular style of learning, teaching methods. A diversified style of educational approach also

includes different approaches to student discipline and procedures for grouping students. Various age ranges refer to the fact that schools tend to vary their classroom content according to the age ranges of the students. And workforce diversity refers to “variation of social and cultural identities” in an “inclusive workplace” (Kossek & Pichler, 2006, p.255).

But, at the same time, some institutions tend to standardize their school management and instruction practices. In an international context, standardization is “understood as the creation of uniform laws and regulation through the implementation of rules developed by international standardization bodies” (Krajewski, 2008, p.424). Some Chinese “Edupreneurs” have developed standardized syllabuses curricula, and teaching tools, like power point and other instructional instruments and then require the faculty to conform to these standardizations (Respondents No. 9, No.11, No.13, No.15), or at the very least, plan to do so (Respondents No.14, and No.17). The Respondents argue that the standardized projects and the resulting conformity can assure quality and excellent learning outcomes or mitigate probable damage caused by ill-prepared classes or a mal-trained novice teacher. Moreover, conformity reduces the costs of internal management.

## b. Universalization V.S. Specialization

When it comes to class arrangement, a frequently posed question is: does the differences in class size have an effect upon on scholastic achievement? The focus of this debate in the US “has centered on the efficacy and cost effectiveness of class size reduction initiatives”(Blatchford, et al., 2007, p.148). Significant amounts of educational literatures has proven a positive link between better learning outcomes and smaller class size (Case & Deaton, 1999; Krueger, 1999; Wößmann & West, 2006, Wolter, 2008). Angrist and Lavy (1999) tested Maimonides rule, suggesting that a class should have no

more than 40 students. They decided to test the impact of class size on the test scores of elementary school children in Israel and it was shown that “reducing class size induces a significant and substantial increase in test scores for fourth and fifth graders” (p.533). Blatchford, et al.(2007) suggest that when there is “more individual attention in smaller classes, a more active role” for pupils between 7 and 11 years old, results in a positive effect on the quality of instruction (p.147).

However in another paper, Hoxby (1998b) points out that class sizes of 15-30 students has no significant effect on student achievement. These estimates are precise enough to identify insignificant improvements in math, reading, or writing achievement of just 3/100ths of a standard deviation (p.31).

Given this vigorous debate about class size nonetheless, scholars outside of China could never have imagined class sizes of 500--900 students, which was rather common in New Oriental School ten years ago. This model of giant class size was copied by other “Edupreneurs” and is still in use today (Respondents No. 9, No.14, and No.19), however the total number of students has dropped to about 100 to 300 per class. It goes without saying that the participants in such giant classes get a universalized type of instruction, which means identical content, identical delivery, and only collective (instead of individual) interaction between the student body and the instructor. This universalization of instruction method was common in test-preparation courses like TOEFL and GRE and is still used in vocational qualification test preparation today (Respondents No.14, and No.19). Unexpectedly, in terms of test scores, these class sizes nonetheless resulted in high test scores for Chinese students in the TOEFL and GRE exams for overseas universities and colleges.

However, this universalized arrangement of instruction can hardly be applied to other courses, except for the afore mentioned test-preparation courses. Specialization, the opposite approach, has gradually become the



trend among Chinese “Edupreneurs;” this in order to adapt to of the changing needs and demands of their customers, the students and their parents.

*Small class size is our principle of operation. The number of pupils in courses at the level of primary school is at most 20, junior high 25, and senior high 30. (Respondent No.13.)*

*We focus on offering one-to-one, one-to-two, or one-to-five tutoring, in other words, one teacher tutoring only one, two, or five pupils. Less the participants, more fee will be charged. (Respondent No.10)*

Other unique class arrangements include flexible scheduling, in order to meet the needs of customers, most of whom are school aged students of who have to attend formal education in schools and adults who have work schedules.

### c. Institutionalization VS. Efficiency

According to new institutionalism, formal structures of many organizations reflect the myths of their institutional environments instead of the demands of their activity. In other words, bureaucratic structures may bear little relationship to the actually requirements of work or to the putative substantive outcomes of public policies (Meyer & Rowan, 1977, pp.340-363). Thus, legitimacy and institutionalization on the one hand and efficiency on the other, constitute a dilemma for the development of young “Edupreneurs”, as most of the star-up companies are anxious to put the company into a right form or formal structure, while institutionalized educational companies discover that they fail to produce the necessary efficiency of operation.

Institutional perspectives helps to explain the success companies and their organizational forms by the notion of “legitimacy”. “Legitimacy is a driver of

organizations' performance", because "conformational pressures" highlight "what is socially appropriate conduct and thus influence companies' action" (Mäkelä, 2007, p.104). But on the way to institutionalization and standardization, energetic young companies already claim to have gradually lost efficiency (Respondent No.12, and No.14). As Meyer and Rowan (1977, p.343) state, legitimacy and efficiency requirements are not always compatible, because organizations develop formal-rational structures in order to achieve legitimacy and not to accomplish efficiency requirements.

#### d. Stratification

Stratification occurs when consumers of educational products and services become less evenly distributed across schools. Given open choices and self-managing status, instructional institutions face an incentive to attract as many consumers as possible. Competition as well as mergers and acquisitions of competitors leads to an increased polarization in each segment of the education and training market.

Further stratification limits some companies' ability to obtain continuous access to capital in order to finance their. As a result, some of them have gone out of the business or merged with others. That's why the number of *minban* training institutions actually dropped year by year from the peak, see table 5-6.

Table 5-6 *Minban* Training Institutions (Ministry of Education)

	2008	2007	2006	2005
<i>Minban</i> Training Institutions	19579	22300	23470	29048

Consequently, the territory of some institutions has become vast, occupying a series of sub-segments of the market and about to access even more

(Respondents No.13, and No.14). They develop a wide range of programs and curriculum menus. A wide range of curriculum menus indicates that schools do not only specialize in or emphasize any particular aspects of the content. This can be said for comprehensive instructional institutions where they provide educational products and services involving various majors and fields. On the other hand, some other institutions focus on their educational specialties and cautiously protect these specialties of instruction(Respondents No. 19.).

### 5.4.3 Innovation

The ability to innovate of any educational institution is socially and culturally different (Chisholm, 2008, p.241). The emergence and growth of Chinese “Edupreneurs” can be attributed to a series of historical forces, such as: a globalized knowledge based economy, with its requirements for a highly skilled work force; fast-paced economic reforms and their success; the devolution by the Chinese government of educational functions to the people and the individualization of educational choices; as well as the exploitation and expansion of educational supply and demand chain. However, none of these factors by themselves could have caused the proliferation of the education and training market, if it is not for the for-profit education sectors' innovative improvement of the traditional methods of teaching and learning in the context of China.

### 5.4.3.1 Technological Aspect

#### a. Provision

##### Course Coverage

“Edupreneurs” cover both formal and non-formal educational settings. The principal distinction between formal and non-formal education is whether or not it leads to a certification of some type. Educational companies have always been adept at providing non-formal education products like standardized test-preparation courses (Tao, Mei-zhong, 2008). The surge of the vocational certification programs was a response to market demand for standards-based talent, which requires formal learning, or at least semi-formal programs to meet those demands, which lead to some companies entering the degree-granting arena.

In addition, education at a distance lowers the market entry requirements and offers a multiple opportunities for educational companies. Education electronically delivered over the Internet, or other technical platforms, makes it possible to fulfill students’ needs without regard for location and scheduling. All in all, the accessibility, effectiveness and efficiency of distance education opens a window for individuals who lack adequate access to other systems of adult education and training (AET).

##### Demographics

Traditional educational by grade level exclusively targets one group of students, either pupils from middles schools or grown-ups for AET.

“Edupreneurs” have diversified their customer base by using a wide range of educational products and services.

The substantial composition of a typical test-preparation class consists of students from multiple age-groups.

*In a TOEFL preparation course, students cluster centers on age-group of 16 to 19 (high school students), of 19-23 (undergraduates), and of 24-28 (graduates). Sometimes, there are also students who visit junior high, aged 12 to 15. (Respondent No.3)*

*In a random language proficiency course, like the New Concept English Course, students’ ages range from 9 to 40. (Respondent No.1)*

## b. Instruction

### Teacher’s role

What should teachers’ roles be? Respondents in this study stress the great importance of the teacher’s role in operation (Respondent No.1, No. 5, No.13, No.14), and they strongly indicate that efforts to retain creative instructors is important to the long-term success of the company.

Traditional forms of education ought to foster high degrees of creativity by using methods such as: “imaginary play, pretending, and personal interpretations” (Runco, 2005, p. 299), which are designed to stimulate creative thinking. But research shows that students received higher grades from teachers whose own styles of thinking matched their own (Sternberg, 2006), which puts in question just “how open teachers are to new ideas and

whether or not teachers actually stimulate students' curiosity and interest" (Runco, 2005, p.90)".

But in most of the Chinese for-profit educational companies, a teachers' performance is graded by students. Hence, teachers are more likely to be open to new ideas and better able to stimulate students' interest in order to receive a better grade from the students. In this case, it is not a question of whether a students' view is right or wrong, good or bad but whether students experience the free exchange of ideas which stimulates their creativity and enhances their learning experience, from which both the students and teachers benefits.

From the point of view of investment theory, creativity is a decision, which suggests that creativity can be developed. Simply requesting students to be more creative can render them more creative, if they believe that the decision to be creative will be rewarded rather than punished (Sternberg, 2006, p.81). All in all, open-minded and creative-oriented teachers are more likely to turn out creative students.

## Instructor-Focused in Classroom

According to Olson, Dorsey, and Reigeluth (1988), widely used instructional methods include: Apprenticeship, Debate, Demonstration, Field trip, Game, Group discussion (guided or free), Ancient symposium, Interview, Laboratory (guided or not), Lecture (speech or guided discovery), Panel discussion, Project, Team project, Seminar, Quiet meeting, Simulation, Case study, Role play, Think Tank/Brainstorm, Tutorial, programmed, Tutorial, conversational, Socratic dialogue and so on.

Traditional Chinese instruction attempts to incorporate at least some of these theoretically sound approaches; however, the implementation of these

approaches oftentimes becomes distorted because of the inability of the teachers to use these methods properly and/ a malfunction in the instructional process. The teaching of English, for instance, has been focused on reading, translation and/or the rote learning of grammar and vocabulary (Lamie, 2007, p.91).

Surprisingly, some successful “Edupreneurs”, gave up all other instructional approaches in test-preparation courses except for direct instruction in the form of lectures. They emphasized a back-to-basics approach in which there is no debate and no group discussion in class. Yet, the delivery of the content is well-designed, every word is weighed before the class starts, even the reference to funny lines and jokes are carefully calculated, so as to pinpoint important rules in preparing certain tests, to invigorate the class environment and energize the listeners. Contrary to mainstream of student-centered orientation, their classes are absolutely instructor-centered. The emphasis on students’ needs is embodied in the class preparation processes. The effect of this swimming against the prevailing tide is that instructors have become stars and schools have become popular.

All in all, the revolutionary breakthrough of the Chinese “Edupreneurs” in terms of pedagogical approaches is the focus on the quality of content delivery, and of the focus on encouraging student morale during learning process.

## Self-directed Learning after Class

All learning is self-directed (Tobin, 2000). Tobin argues that there are four stages of learning: data, information, knowledge and wisdom, and proposes a four quadrant model for independent and dependent learning (*ibid.*, pp.9-20), see table 5-7 (Tobin, 2000, p.20).

Table 5-7 Four Quadrants of Independent Learning

	Other Directed	Self Directed
Independent	Quadrant III Independent, Other-Directed Learning (Assignment)	Quadrant IV Independent, Self-Directed Learning (After class)
Dependent	Quadrant II Dependent, Other-Directed Learning (In the Classroom)	Quadrant I Dependent, Self-Directed Learning (Study Plan)

Self-directed learning embodies the characteristics of the adult learning. It suggests that the locus of control in learning lies with learners themselves, who may be well aware of their own learning processes and outcomes, initiate decision-making regarding the learning task and use teacher as a resource person (Graves, 1994, p.159). Pupils and college students need varying degrees of direction and support, in general, while adult learners are ready to be self-directed.

*We make effort to enhance the student control over as much of the learning experience and skill development as possible* (Respondent No.7, No.8, and No.9).

*We encourage students' to challenge themselves to achieve their best possible performance and to manage themselves and their learning efforts* (Respondent No.1, and No.2).

*We help students set important goals for themselves* (Respondent No.13).



In brief, Self-direction in learning is a fundamental educational premiss for Chinese “Edupreneurs”. Students learn to inspire themselves and evaluate their own progress, including both the quality of their work and the process. The responsibility for making progress and attaining the standards they strive for lies with the students.

#### 5.4.3.2 Managerial Aspect

##### Customer-centered

Corporate governance, or management, is associated with optimizing the principal-agent relationship and minimizing transaction costs “rising from monitoring, bond posting, and residual losses”, and the choice of governance model depends on macro “cultural, historical, economic, and institutional” context as well as micro capability and preference (Chen & Li, 2007, p.238). Schools are in principle regulated and administrated by the government and its agents, whereas companies are managed by the rules of business and the commercial world, which stress customer-centered products and services, efficiency of product delivery and cost-effectiveness of the operation. Educational companies, even when the operational field in which they are embedded is traditionally understood as a public service, still need to focus on issues like how to reduce costs and deliver optimum services.

Competing with publicly funded schools and training facilities, Chinese “Edupreneurs” in the quasi-market of private education are compelled to understand their customer’s needs and market segments, to be able to offer diversified products and services that are focused on those needs, in order to develop multiple channels for customer access, and to achieve cost efficiency through various means.

A customer-centered orientation now becomes the primary source of the competitive advantage, because the top issues of a customer-centered enterprise is to establish and perfect customer relationships. At the same time, flexibility, the ability to innovate, quality improvement, cost position, investment in HR, supplier relationship, plus brand image and equity are all given due attention(Thompson, 2000, p.8).

These topics are seldom incorporated into the agenda of traditional schools or training center and executive accountability now replaces the role of superintendents and principals. In addition, globalization offers Chinese companies more opportunities and challenges and in the educational arena, their international counterparts also put significant pressure on the local “Edupreneurs”, which thereby force local Chinese companies to utilize their better comprehension of local customers to survive and thrive in the marketplace.

## Quality Assurance

Quality assessment plays an important role in quality assurance of the courses offered. Almost all the “Edupreneurs” utilize a “Student End-of-Course Survey”. In such surveys, students evaluate the educational content and the content delivery.

*We do not adopt the Student End-of-Course Survey because it is popular and fancy, but because the quality of the courses and the satisfaction of customers is the lifeblood of our company (Respondent No.13).*

Instead of traditional methods of evaluation, other means of assessing the faculty were developed. For example, NOET organizes regular events called “competition of teaching skills,” in which instructors are required to make

presentations concerning their educational content or directly demonstrate their routine instruction methods (Respondent No.2). Many schools also apply an administrative review, in which a member of the administrative staff visits the classroom without notice (Respondent No.13, No.14). All these efforts are aimed at assuring continued instructional excellence.

Sometimes student comments are analyzed and by using the comment analysis profiles, the university can identify the weak courses in a matter of months rather than years, which enables instructors to distinguish their strengths and weaknesses in their teaching styles, and administrators to detect genuine problems before they become catastrophic. However, since the analysis process is often time-consuming and laborintensive, it has not been fully adopted.

## Recruit and Retain Talents

The evaluation of administrators and department heads takes other forms (Respondent No.5). They are held directly accountable for budgeting, which leads to either sanctions or rewards. For-profit educational companies make it a priority to select first-class candidates as their administrators in subsidiary schools, department heads and teaching personnel. Unlike mainstream academic circles, there is no fixed standard for degrees, experience or publication requirements in recruiting instructors. Their major criteria are whether or not a candidate instructor will be able to deliver the content soundly and/or gain popularity wirth the students. It more resembles Freire's (1980) perception that instruction and learning relies upon: "The one who knows something teaches it to the one who does not know it" (p.59).

In order to retain talented instructorss Chinese "Edupreneurs" tend offer highly competitive compensation. Traditionally, teachers in the public schools in China are underpaid. However, instructor' salaries in a typical Chinese

educational company is performance-based and often exceeds that of a teacher in traditional schools. It's likely that a day's lecturing in a Chinese "Edupreneur" equals to a month's work in a traditional school.

*We attract and retain talented instructors first by offering comparatively higher than average compensation and secondly by creating sound working environments and good personal relations with the instructors(Respondent No.13).*

Thus, above average compensation is considered a major incentive for continuingly attracting qualified talents. And the salary levels of teachers are "more likely to be positively related to student achievement than negatively" (Hanushek & Rivkin, 2006, p.12).

#### 5.4.4 Restriction

Along with the afore mentioned innovations, three major risks for restriction have been detected, which would inhibit the further development of Chinese "Edupreneurs" if not handled properly.

##### 5.4.4.1. Talent Shortage

More and more subsidiary schools and centers are being established as the market expands and the need for qualified instructors and administrators of various levels and qualifications has become urgent.

In response to the talent shortage, some visionary "Edupreneurs" are taking measures to build up training systems of their own, including "training for new instructors", "further training for excellent instructors", "enrichment courses for managers", and workshops of various topics (Respondent No.5,

No.9, No.10, and No.13). Additionally, effort has been made to design a clear career path for staff and teachers. This involves internal selection of “lecturer”, “facilitator” or managers, thus opening a door for staff and teachers to reach the managerial level.

An even larger concern about the "human" factor in company development is the deficiency of leadership which constitutes a major restriction for the further development of young “Edupreneurs”.

With respect to corporate operation and innovation, some key figures—usually founder of the firm or chief executive—play the most important role. It is their leadership skills, including vision in the future, insight in the industry and commitment for the company that are most likely to catalyze the emergence of innovative products, services, marketing and management strategies, and thus drive the company forward.

*We need talents to lead our expanding team.* (Respondent No.13)

*We need to explore markets outside Beijing, so we need local talents to manage subsidiary schools there.* (Respondent No.14, No.15)

Organizational leadership, according to the Global Leadership and Organizational Behavior Effectiveness research program (GLOBE), is “the ability of an individual to influence, motivate, and enable others to contribute toward the effectiveness and success of the organizations of which they are members” ( House et al., 2004, p56). Good leaders are flexible, dynamic, risk-taking, creative, and growth oriented. How far will these “Edupreneurs” can go largely depends on organizational leadership, which is exactly what some respondents are uneasy about.

#### 5.4.4.2. Capital Shortage

80 per cent of case subjects reported that the major sources of star-up capital were personal savings as well as savings of their friends and relatives (for example Respondent No. 13, No. 14, No.15, No.18, No.19, and No.20). Sources like overseas investment, bank loan, and loan from credit association were the second chapter of the story (for example Respondent No.7, No.9, No.10, No.11, No. 12, and No.16).

This finding echoes the survey result of Yang (2007), who lists several capital sources that respondents to choose. The major sources of capital included: inheritance, personal savings, capital gains from stocks and real estate, overseas investment, borrowing from relatives and friends, bank loans, loans from credit associations, borrowing from collective enterprises, borrowing from other individuals, and others. He argues that the capital from personal savings or profits which initially determine the size of private enterprise could not be very large (p.103).

Right now, a good way to mitigate the pressure of the capital shortage is to raise venture capital, because venture capitalists exert a series of positive influences on recipients, for example, providing endorsement, enhancing managerial skills, broader market contacts and so on.

Another innovative way of raising capital is through loans made available through Educational Finance Plans, Inc. (EFP), a wholly owned subsidiary of Sylvan. "The loan plans enable parents who cannot pay the full tuition in a lump sum to stagger the payments. For example, if parents are willing to buy a \$1000 program subject to financing, EFP offers several financing options. Whichever is adopted, the franchisee gets \$900 immediately and the franchiser and its bank absorb the risks of default for \$100 and the interest on the loan. Most local operators could not develop and market such a plan; the costs would be prohibitive" (Lieberman, 1989, p.264).

## 5.5 Macro Analysis

This section explains the emergence and flourishing of Chinese “Edupreneurs” in an economic, social, and political backdrop. Hood (1994) proposes that four interacted factors smash the existing policies and leads to policy reshaping. The following section of this dissertation tries to explain the rise and success of for-profit educational companies in such a framework.

### 5.5.1 Economic Factor

#### Economic Force

The past three decades have been marked by globalization and remarkable industrial shifts. The world witnessed the decline in manufacturing, the rise of the service sector, the revolution in information technology, the competition at the global market, the reorganization of workplace, and the rise of China.

China carried out economic liberalization processes and the opening for foreign trade and investment since the late 1970s, adopting a unique approach of “crossing the river by feeling the stones under the feet” attributed to Deng Xiaoping. As a result, China has made great economic progress with double-digit growth in GDP for several decades. China's rise is spectacular, with per-capita GDP increasing from less than 200 U.S. dollars to over 1500 US dollars for the past 25 years (Business Week, December 6, 2004; January 3, 2007). Foreign Direct Investment or FDI was over \$37 billion in 1995 alone, constituting 35% of total FDI into all developing countries in that year. The gains from FDI concentrate on export expansions, spillovers effects of diffusing technology. Thereby raising China’s competitive edge in the world

markets, and stimulate reforms toward market systems, in addition to the capital formation, job creations, and human capital development (Zhang, 2007, p.44).

In 2006, China's exports and imports of goods, together, were \$1,760bn, the third largest in the world, behind the comparable figure for the US and the European Union (excluding internal trade). Further, China has become a huge capital exporter. Its current account surplus has exploded upwards in recent years, from \$69bn or 3.6 per cent of GDP as recently as 2004, to a recent forecast of \$378bn or 11.9 per cent of GDP, by the World Bank for 2007 (Financial Times February 5, 2008). China is now the number one trading partner for the EU, Southeast Asia, and East Asia. The success of China's economic reform marvels the world, especially because it stands in stark contrast to the collapse in the former Soviet Union and much of the East-Central European countries. At the same time, China is "able to point to a dynamic indigenous private sector and significant inward investment, notably in the coastal regions of the south and east" (Flynn, et al., 2001, p.1).

At the same time, structural shift is undergoing in the economic sector. Between 2001 and 2005, the state sector decreased by 48.2 per cent, the collective sector has experienced a decrease of 46.9 per cent. In contrast, the number of stockholding companies has increased a 35.2%, private companies 49.7 per cent, foreign companies 9.6% (Nan, 2008, p.29). A principal contributor to the restructure is the reform on SOE. In 1997, the policy of "grasping the big and letting go of the small" deepened the privatization of small SOEs and restructuring of the ownership of large SOEs. By the end of 2003, the private sector accounted for 76.4 per cent of total employment in the non-farm business sector (Büchelhofer, 2008, p.8).



## New Ideas (in the education arena)

Education arena invites a matrix of new ideas during the past decades. The fuzzy terms of “internationalization of higher education” and “borderless higher education” are widely used and thereby “life-long learning” erects a banner in the knowledge based information society (see Chapter 2.3). The trends of “privatization” and “commercialization” are pervasive. Moreover, debates on “is education a public good or private good”, “is education a commodity or not”, “is education a market place”, “is education a business” are heated (see Chapter 2.2). At the same time, the approaches and theoretical frameworks of “public choice theory” “new institutionalism” and “human capital theory” are employed to analyze the educational phenomena (see Chapter 2.4).

In a nutshell, the notion of consumer-oriented or market-driven education took on different forms, including community models for example, school-based management, a wide range of privatization for example, vouchers or home schooling for example, the U.S.

Some may argue, the institutional dynamics centered on consumers opposes the public good, while others insist that new consumerism is a natural byproduct of the socio-economic transition. In fact, the changes in education reflect the transformation of the macro-backdrop in terms of economy, society, and politics; or to put it another way, the changes in the educational environment are determined by various economic, social, and political changes in the society at large.

In addition, the public choice theory has been applied in education. Public Choice provides a theory of governmental failure that is fully comparable to the theory of market failure that emerged from the theoretical welfare economics of the 1930 and 1940s. Public choice theory applies tools and methods developed in quite sophisticated analytical economic theory to the

governmental sector, to politics, and to the public economy (Buchanan, & Tollison, 1984, p.11-13). ” Buchanan, one of the major creators of the public choice movement, challenges the most fundamental assumptions concerning the nature of government and the public policies in any political process. His public finance models thinks outside the box of the neoclassical mainstream belief in the collective problem-solving model and in measurable, explicit opportunity costs.

Cost, in the choice-bound conception, is purely subjective and must be reckoned in a utility dimension, rather than in a commodity dimension, as in orthodox predictive theory. Public choice theory has had a profound impact on government policies (Buchanan, 1969, p.18), which suggests that government may not really solve problems in the marketplace because of the rent seeking activity during the legislative process, where individuals as “voters, politicians or bureaucrats act rationally in their own self-interest” but not necessarily in the interest of those who face the problem (Mueller, 1993, p.489).

Public choice theory has been applied in education in one way or another, often unconsciously. For example, the frequently used terms “accountability”, “competition”, “market”, or “adding value” in education come from neoclassical economics and public choice theory. Dennison (1996) explains the application of Public Choice Theory to education:

...State provision, especially if a monopoly, creates problems which profoundly affect not only the operation of the service but also the whole political, economic and social structure .

(p.205)

Devine (2004, p.xxv) adds:

At the level of the provision of services, then, public—that is, individual—choice would replace central planning and administration, and bureaucratic governmental or regional control, with market processes.

Forms of application of public choice to education vary. It could be total privatization through virtual markets, involving differing amounts of choice for the consumer and accountability for the provider, or pseudo-markets in which people without choice or control, like welfare beneficiaries, are renamed customers (Devine, 2004, p.xxv).

### Habitat change (Demand-Supply)

Following the economic reform and its success, China has been experiencing a tremendous transformation. The poverty rate has dropped from over 60 per cent to about 10-15 per cent (Business Week, December 6, 2004; January 3, 2007). According to figures from McKinsey and Goldman Sachs, some 80 per cent or more of China's urban population will be in the middle class by 2015; Goldman Sachs puts the minimum income for "middle class" status at US \$9000 annually; McKinsey includes gradations from US \$3200 ("lower middle class") to US \$12500 ("upper middle class"). Some other consulting companies predict that Consuming China will grow to some 270 million a decade from now, with average household consumption rising from US \$5000 to US \$10000 in that time (Business Week, May 9, 2007). These remarkable industrial shifts and trends have brought increased demand for skilled labor. Large firms require knowledge at the front-line, small and medium enterprises demand on-the-job, just-in-time, on-demand learning, and the outsourcing services demand a more adaptive workforce. Low-skilled jobs are gradually pushed out, high-skilled jobs swarm into the workplace. As a result, low-skilled labor is marginalized, or the number of "blue collars" declines, while qualified labor is in short supply, because there is no smooth transition from school-to-work. As a result, demand for post-secondary education, or at least demand of learning opportunities transcend all sectors.

According to Yu (2008), national associations have drastic dramatic rise in numbers to 1600 and local associations rose to 200,000 since 1989, when compared to the previous tiny number of independent associations and mass organizations. “In 1997, associations and organizations above county level numbered 180,000, those at provincial level numbered 21,404, while nationwide associations and organizations numbered 1848”, and estimated “730,950 village committees, and 510,000 union organizations at grassroots level” (Yu, 2008, p.12) .

## 5.5.2 Political Factor

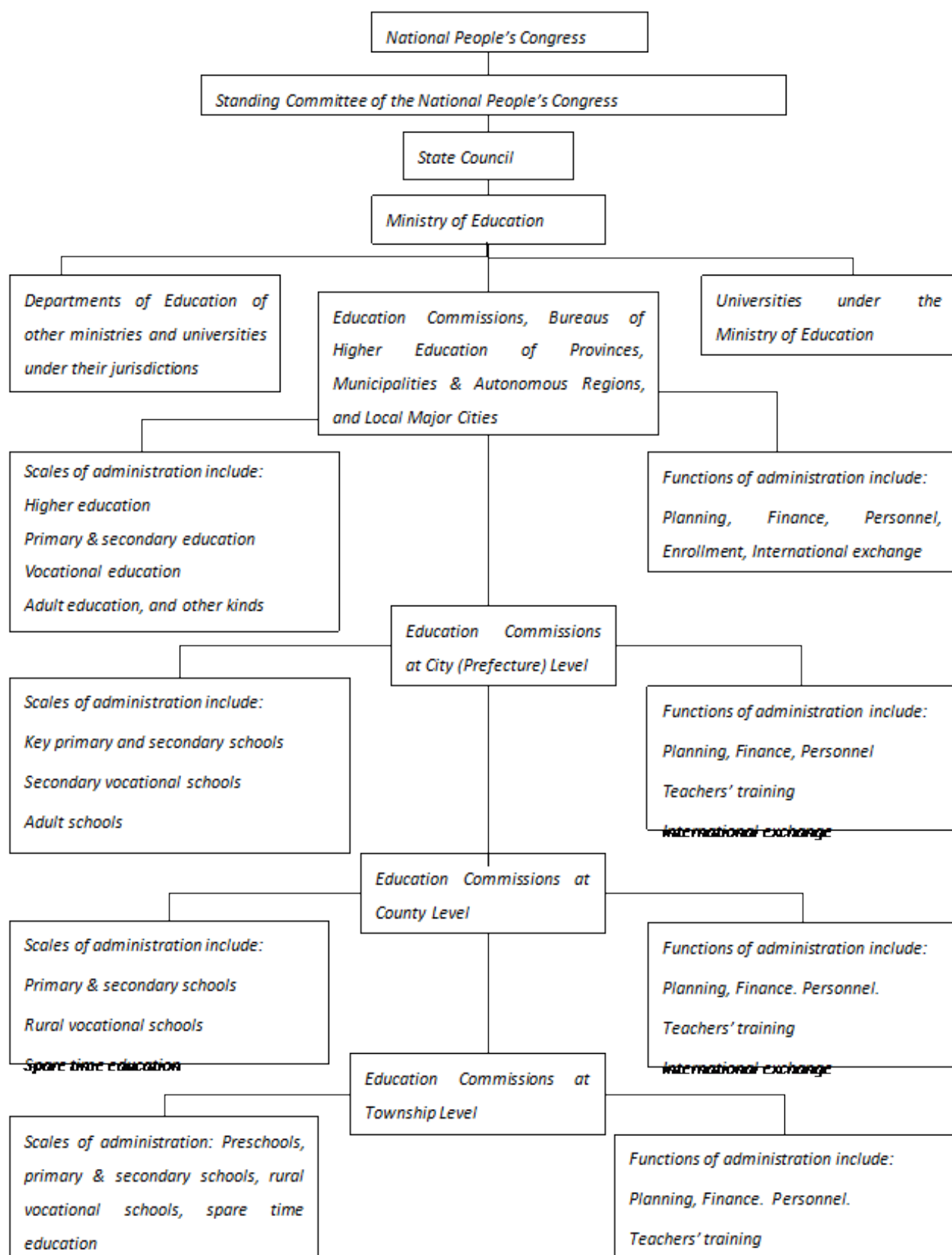
Education structure involves the configuration of each segment in the education system and their interrelation (Hao, 2001). A justified and structurally sound system of education is needed for the sustainable development of the economy, technology, and society.

### 5.5.2.1 Administrative structure of Education in China

Around the world, educational administrative systems vary from largely centralized to largely decentralized or mixed. The administrative system in China typifies the largely centralized type, in which a national Ministry of Education guides, administers and supervises the educational institutions of the country.

China's government is led by the Communist Party of China, which parallels the administrative hierarchy of the government, there are Communist Party Committees or Secretariats at all levels of the government, which are responsible for setting up direction of the educational development and for implementing and supervising socialist education and morality. The Central Committee of the Communist Party of China is responsible for directing the whole country's educational development and for guiding the reforms of the educational system (Wang, 2003, p.284). Generally, the State Council and its affiliated ministry—the Ministry of Education—provide macro-guidance to provincial governments and other ministries in terms of education principles, policies, education budget allocation, and developing plans, etc. Then, at the provincial level, the provincial governments and ministries are responsible for direct administration and management. Figure 5-9 depicts the administrative structure of educational system in China.

Figure 5-9 Administrative Structure of China's Education (ibid. p.26)



### 5.5.2.2 Structural System of Education in China

Under the leadership of CPC, China has established the primary social education system with Chinese characteristics, since the founding of the People's Republic of China in 1949. This system covers a wide array of levels and patterns which displays lots of limitations when it comes to adapting to the socio-economic demand for social advancement.

According to Education Statistics Yearbook of China published by the China National Bureau of Statistics, The Chinese structural system shows great deal of variety after half century's effort.

The system, as shown in the following table, consists of four levels, though the more widely used terms are "basic education" and "higher education". Children age from three to six attend kindergartens and Child-care centers. Primary (elementary) instruction takes 6 years to complete, then the secondary another 6 years, normally stated as lower secondary for the first 3 years and upper secondary for further 3 years.

The system also consists of four types, with general education taking a dominant role. The term "adult education" often refers to remedial or literacy schooling in the public school system, while continuing education maintains the knowledge level of professions and trades and is sponsored by licensing or professional bodies in most western countries. In China, however, "adult education" also covers education at a distance and the rest of the system, except for the general education. (Wang, 2003, p.209)

Table 5-8 Current structural system of education in China

	Tertiary	Secondary	elementary	Pre-school
Type				
General education	1. Graduate schooling 2. 4-year-Under-graduate schooling 3. 3-year-under-graduate schooling a. vocational academies 4. Subsidiary schools of universities	1. Specialized secondary schools (secondary tech. schools, normal schools) 2. schools for skilled workers 3. vocational schools (junior, senior) 4. general schools (junior, senior) 5. secondary special education 6. work-study schools	1. primary schools 2. sites for classes 3. special education schools (classes)	1. kinder-garden 2. child-care centers
Adult education	1. radio and television specialized universities 2. workers' colleges 3. farmers' colleges 4. administrative colleges 5. education colleges 6. independent correspondence	1. radio and television specialized secondary schools, 2. general senior secondary schools for staff 3. general senior schools for officials 4. general senior schools for farmers	1. workers' primary schools, 2. farmers' primary schools 3. Literacy classes attached to adult primary schools	



	<p>colleges</p> <p>7.adult education divisions attached to regular higher educational institutions</p> <p>8.evening universities</p> <p>9.full-time classes for adults</p>	<p>5.correspondence specialized secondary schools,</p> <p>6.in-service teachers training schools,</p> <p>7.Adults middle schools (staff, farmers)</p> <p>8.Adults schools for vocational training (staff, farmers)</p>		
Additional types	<p>1.military colleges</p> <p>2.the self-taught exam system at tertiary level</p> <p>3.private schools for academic credentials</p> <p>4.private universities</p> <p>5.preparatory classes for universities</p> <p>6.religious colleges</p> <p>7.schools for foreign students</p>	<p>1. The self-taught exam system at secondary level.</p>	<p>1.sites for non-official classes</p> <p>2. Literacy courses</p>	
Training and Continuing education	<p>1.classes for professional certificates</p> <p>2.qualification training</p> <p>3.continuing education and technical training of various kinds</p> <p>4.short-term courses offered by regular universities, refresher classes, visitor scholars abroad</p>	<p>1.vocational training (before-service, in-service, transferring)</p> <p>2.qualification courses</p> <p>3.practical skills training for farmers</p> <p>4.short-term and refreshing courses of various kinds</p>		

This table may shed light on the system, for to some degree, it depicts the vast landscape of the Chinese education system at the end of last century and thus demonstrates the great deal of advancement made by government of different levels: elementary and primary education developments aimed at the revitalization of the 9-year compulsory education system; advancements in secondary education which shapes the co-development of the general education and vocational education systems; the tertiary education system has grown by leaps and bounds and forms a sub-structural system with multi-levels and patterns: China enlarged the enrollment of undergraduate students from 1.8 million in 1998 to 1.95 million in 1999 and to 2.04 million in 2000 respectively (Wang, 2003, p.187).

The objectives of the Higher Education Law are stated thusly “Higher education must implement the educational policy of the state, serve socialist modernization, integrate itself with social production, and cultivate the educated to be morally, intellectually, and physically sound builders and successors of the socialist cause.” Hence, the task of higher education is to “train professionals and specialists with innovative spirit and hands-on capability, advance science, technology and culture, and promote socialist modernization.” The Vocational Education Law sets the goals as “implementing the strategy of strengthening China through science and education, developing vocational education, and enhancing the quality of workers and promoting the socialist modernization process” (OECD, 2007, p.10).

However, the system fails to reflect the sharp changes during the past decade in terms of both levels and types respectively within this gigantic system.

1. It fails to delimit general education from vocational education clearly.

This lack of delimitation reveals that vocational education has been long neglected. Faced with the economic structural adjustment and demand

from the labor market, China cannot afford to continue to ignore this situation any longer.

2. "Adult education," as a separate type of education, overlaps with in part with general education. A rather vague definition and the confusing orientation of adult education accounts for this overlapping, in that their target group overlaps with general education and their instruction overlaps vocational educational instruction in China.
3. It also fails to reflect the changes in size of different sectors, like the expansion of higher education from 1999 and the shrinking of specialized secondary schools (secondary technical schools, secondary normal schools).
4. It fails to reveal the rapid expansion of the private sector.
5. It fails to adjust to the fast changing situation caused by education at a distance, which is fueled by the continuous development of new learning technologies.

### 5.5.2.3 Disparity of the Current Educational System

As the case now stands, scrutiny over the newly emerging trends and arising problems in the structural system is much more important than dwelling on criticism. The most severe problem is educational disparity.

#### a. Disparity between Urban and Rural Area

China's dual social structure was engendered by long-standing governmental decrees and regulations that separate rural society from urban areas (Wang, 2004, p.81).

China is more like a continent instead of a country. The size of Chinese provinces is equal to or even larger than that of a nation-state in Europe. Regional differences in many aspects are greater than national differences in some parts of the world (Zhang, 2008, p.3). Urban and rural disparity is by all accounts the most crucial one. Disparities exist between regions in terms of funding, educational opportunities, school facilities and resources, as well as teacher qualifications, student attainments, and gender differences, which result from a series of historical factors, regional developmental processes, families' socio-economic background and governmental policies relating to remuneration for teachers (Lamb & Guo, p.2007, p.p.304-312).

#### b. Disparity between "Key schools" and Ordinary schools

Under the circumstances of resources shortage, the Chinese government named 1954 schools as "key schools", which are 4.4% of all schools in China, in 1953. According to subsequent policies emphasizing the importance of key schools and urging the acceleration of key schools' development, key schools

were given priority in funding, more human resources, school facilities, and the entitlements. These policies improved the quality of the key schools tremendously, but lead to a severe problem of uneven development of China's educational system's outcomes. The non-key-schools were unprivileged and generally disadvantaged (Feng, 2007, p.288).

### c. Disparity between public schooling and private provision

China's educational administrative system is highly centralized, at the national Ministry of Education which guides, administers and supervises in the educational institutions of the country, as illustrated in chart. It is the "state's apparatus for organizing, leading and managing educational work and the development of educational undertakings." (Wang, 2003, p.24) Obviously, it's unlikely that the government will make precise judgments about current education needs for the country as a whole when taking into consideration the demographic complexity and geographic factors of socio-economic development. Hence, shortsightedness and subjectivity is unavoidable in macro-regulation of education i. With the economic and administrative reform of the 1980s, the administrative power has been gradually devolving to localities, but the state still guides the direction of educational development throughout the country, and state officials take charge in overall planning, coordination, and management of educational undertakings. Under this administrative system, the policy-making sometimes fails to adapt the corresponding educational developments and the socio-economic requirements' which thereby skews the mechanism of the educational provision. The belittling of the private sector for decades has resulted in a lack of mechanisms that enable public and private schooling to progress because of their focus on state run educational systems.

Privately funded universities and colleges has been established but guided by more rigid educational policies and regulations from government at all levels. The biggest headache is that it is still difficult for them to obtain approval from the relevant authorities to issue government-recognized credentials to their students. Most private post-secondary education institutions offer academic preparatory courses for students preparing for the State Administered Higher Education Examinations for Self-Learners, and others are vocational and technical training schools aimed at the labor market by tutoring students with professional knowledge and skills of specific trades.

Even within the CCP, has increasingly recognized that China must evolve a more “open, responsive, accountable, and participatory” structures, otherwise “political instability, even turmoil” could hardly be avoided (Zhao, 2001, ix). And the structural adjustments should involve not just the political affairs, but basically all the areas where disparities exist, including the education arena.

#### d. Disparity between general education and vocational education

Vocational education has long been belittled in the educational system. It is imperative for China to rethink workforce preparation. The impetus for this process is located in recent economic and social changes.

## 5.5.2.4 Deficiency of the Current Educational System

### a. Expenditure Deficit

Educational and general expenditures refer to the sum of current funds expenditures on instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant, and awards from restricted and unrestricted funds. The national resources devoted to education depend largely on supply and demand, which is shown in indicators like demographic structure of the population, enrolment rates, income per capita, national levels of teachers' salaries and organization and delivery of instruction (OECD, 2004, p.227).

UNESCO statistics in 1998 gave the world average proportion of public expenditure on education as 4.9% of the gross national product (GNP). Developed countries' average proportion was 5.1% and developing countries' 4.1%, but China's was only 2.55%. Now, China spends its GDP on educational institutions at 3.7 per cent yearly on average, still much lower than those of Western industrialized countries. Public expenditure on education as a percentage of total public expenditure at 13 per cent is off the WEI average of 15.6 per cent (OECD, 2003, p.123).

In addition, the proportion of educational expenditure per post-secondary student in relation to primary and secondary students is much too high. In 2000, China had 130 million primary students, 64 million lower-secondary students, 25 million upper-secondary students, 9 million undergraduate students, and 0.3 million graduate students. As to rationalizing expenditures on higher education versus primary and secondary education, the average ratio of other countries is around 1:3 to 1:7, but in China the ratio is 1:60, i.e., the investment for fostering one university student equals that of training 60 primary and

secondary students. It indicates that the public expenditure on primary and secondary education is too far below real needs.

The most practicable measure to bring the educational expenditure ratio down from 1:60 is to increase the number of university students recruited. In 2000, the ratio between university students and instructors increased to 16.3:1 from 13: 4:1 in 1999. (Wang, 2003, p.69)

Further, the proportion of current educational expenditure allocated to staff compensation in primary and post-secondary institutions is the lowest at 64.3 per cent among WEI countries which average 82.9 per cent. China has the ratio at 0.88 when an upper secondary teacher's salary, after 15 years of experience, is related to GDP per capita. The WEI average for this ratio is substantially higher at 2.10. At the same time, the economic efficiency of state educational expenditures is lower than expected; many resources are wasted in the effort to align the existing educational financial system with market-oriented economic systems.

## b. The Problem of School Effectiveness

School Effectiveness is defined as adding value to students' outcomes and improvement of quality (Feng, 2007, p.287). The issue of school Effectiveness has long been one of the "deepest veins of literature concerning policy control of public bureaucracies (Lynn, 2001, p.127)". Chubb and Moe (1990) identifies the organizational foundations of effective performance as "clear school goals, rigorous academic standard, order and discipline, homework, strong leadership by the principal, teacher participation in decision-making, parental support and cooperation, and high expectations for student performance (p. 16)". But Chinese schools fall way behind these criteria. Schools are affected by macro political or other external factors, such as external standards. They are not flexible, and have no room for openness or flexibility either. Their value



lies in transmitting rote knowledge and the motive for development is not the enhancement of student learning or the betterment of the institutions, but measurable outcomes and the recognition of public opinion. The relationship between teachers and students is linear and hierarchical. Most times, teachers tend to favor those outstanding students and consequently neglect the larger group of students. The problem of governing the public schools has long been the focus of attention for the media, politicians, and researchers in China. It seems that public sector's failure to meet the rapidly growing demands of students and employers alike, is because of institutional inertia, financial shortfalls, and policy restrictions.

The direct result of this ineffective school performance is the high drop-out rate and low educational attainment, which give rise to further social issues, because, in principle, educational attainment is positively related to individual performance in the labor market. Those with higher levels of education are more likely to participate and meet the needs from employers and society as a whole, and therefore encounter a lower risk of unemployment and receive higher earnings averagely.

### c. Commercialism in Public Schools

Public schools are not immune from the impact of commercialism, and its concomitant economic, social, cultural, and political forces. The commercial influences in schools have been significant. For example, in order to generate more income to support educational development, school principals and universities administrators have ventured into the commercial fields to generate additional capital, by means of opening businesses, running commissioned courses, offering adult education and evening courses, charging consultant fees, running cafeterias, and so on. Most of the renowned universities in the mainland run extracurricular businesses.

Income of tertiary educational institutions from their affiliated enterprises has been legalized. In fact, extracurricular income has played a major role in their development. Table 5-9 show the increase of tertiary educational institutions setting up their affiliated enterprises (OECD, 2007, p.58).

Table 5-9 Data of Tertiary educational institutions-affiliated enterprises in China from 1999 to 2003 (in RMB 100 million)

Year	Number of enterprises	Total Income	Total Profit	Profits and fees submitted to institutions
1999	5444	379	31	16
2000	5451	485	46	17
2001	5039	603	48	18
2002	5047	720	46	17
2003	4839	826	43	18

Data source: China Education Yearbook, 2004

Other forms of commercial influences include:

- Corporations sponsor school events and activities for the right to associate their name with the events or contests.
- Corporations may be granted the right to be the exclusive supplier of a product or service in school.
- Corporations launch multiple incentive programs, that provide free stuff or coupon, for instance, when students or staff engage in a specified activity.
- Corporations place corporate logos or advertising messages in school space such as scoreboard, rooftops, bulletin boards, walls, rooms, wings, or even the entire building.

### 5.5.3 Legal Environment (Educational Reform in China)

Educational reform in China has centered on re-organizing the educational structure and adjusting educational management system during the 80s and 90s. Other important topics included increasing the educational budget and raising the social status of teachers (Lan, 2007, p.97). In recent years, more concerned issues involve regulation (ownership, funding, administration), educational Attainment (enrollment, employment), educational Production Function (expenditure, quality), and Choices (demand-supply side). From the end of the last century, China's educational reform turns attention school level change and comprehensive school improvement.

#### 5.5.3.1 Convergence and Divergence between Education Systems

From the perspective of comparative education, education systems around the globe have been going through considerable internal and structural changes as well. The more centralized have tried to become more flexible, and the more decentralized have set out to introduce national standards or more exact common rules.

Traditional centralized states like France, Portugal, and Hungary have been observed to adopt a more decentralized decision-making, while strongly decentralized states such as England and Belgium strengthen centralization, in terms of evaluation, school governance and structural system (Maroy, 2007, p.17).

“Neo-institutionalism” tries to make up for the deficiencies of previous theoretical approaches regarding organizations or institutions. The nation-state in its original outlook had the monopoly on public education. However, the intensified processes of economic, political and cultural globalization have affected the nature of the relationship between the nation-state and its

education system (Do Amaral, 2006, pp.49-50). According to neo-liberal economists, marketized school systems replace the state monopoly of education. The advent of school vouchers, charter schools, and alternative schooling funding through private firms are forms of influence on educational change exerted by the economic interests of private enterprise. “New Public Management” instruments, especially vouchers, decentralized administration of school districts, contraction, etc. appeal to many stakeholders such as educational reformists and government officials.

The educational reforms taking place in China involve many aspects intertwining as a cycle. The starting point is that the policy-making tends to be decentralized, which gradually takes into account the views of both public and private schools and of that of the students parents thereby making their voices count.

The direct involvement of the Chinese Communist Party has been reduced and decision making power has been partially transferred to the local level, turning the traditional State-run-system into a system of guidance inline with the State’s macro control. As a result, educational monopoly of the government has been loosened, resulting further in diversification of both the supply of educational products and the means of educational funding. This resulted in a reduction in state subsidies and an increase of educational financing channels.

Moreover, competition has been advocated by the State, leading to the application of performance-based assessment and performance-based fund allocation. During the process of competition, new patterns of institutions break through barriers and come into being. In the organization level, the board of directors has been established and the principal/president accountability system has been adopted. As for the operation within institutions, school-based management and managerial approach have been introduced.

### 5.5.3.2 Legislature

Contrary to traditional education reforms which concentrate on “issues of curriculum and instruction”, the structural reforms centers on “issues of authority and governance” (Nitta, K. A., 2008, pp.11-12). Accordingly, “educational outcomes, not inputs, should be regulated and authority should be restructured within the existing public education system” (ibid.).

In China, the Education Law of the PRC gives each level of government its own educational jurisdiction. From 1985 to the early 1990s, national education reform in China concentrated on administrative reform of the educational structure.

In 1985, a policy paper entitled “The Resolution on Reform the Educational System” was issued by the Central Committee of the Communist Party of China, indicating the state’s determination to encourage all democratic parties, people’s bodies, social organizations and individuals to make contributions to the diversification of education services by various forms and methods. According to “the Resolution on the Reform of Educational System”, the administration of primary and secondary education is the duty of local governments. The central government is only responsible for setting up the guiding principles and macro planning for primary and secondary education. Local governments have the power to make and implement practical policies, systems, and plans for primary and secondary education. They also have the power to lead, manage, and inspect all the primary and secondary schools in their localities (Wang, 2003, p.25).

In 1986, the National People’s Congress issued the “Compulsory Education Law of the People’s Republic of China”—the first educational law in the history of PRC. This law started the implementation of nine-year compulsory education in China.

In 1987, another resolution “Provisional Regulations on the Establishment of Schools by Societal Forces” provided a legal base of the establishment and management of non-state schools (Mok, 2001, pp.92).

In the late 1993, “The Program for Reform and the Development of China’s Education” and its Implementation Guidelines the second year affirmed that the state would give full support to enterprises, social institutions, local communities and individuals in achieving multiple-channels of financing and multi-methods of educational provision, promoting cooperative operation and modifying the segmented governance structure.

According to an economic model analyzed by Demange, et. Al (2008), pure fee-financing or pure tax-financing of education pales the optimal mix-financing scheme combining tuition fee and tax-financed subsidies in an imperfect credit market and an increasingly mobilized world (pp.4-23).

In November 1998, an important document “Reinforcing the Development of Disadvantaged Schools and Making Every School Work in Large and Medium Cities” was issued by the Ministry of Education, aiming at improving the disadvantaged schools, by introducing changes in funding, governance, policy of enrolment, personnel distribution, and teacher development (MOE, 1998).

In the same year, the Higher Education Law of 1998 confirmed that the state shall establish a higher education financing mechanism with government appropriations as the primary source while funds rose from other multiple sources as a complement, and that state encourages enterprises, social agencies, other social organizations and individuals to invest in higher education. The law legalized new channels of funding tertiary education through multiple sources.

In early 1999, the State Council ratified the “Action Plan for Educational Vitalization Facing the 21<sup>st</sup> Century”. This law proposed national curriculum reform and teacher in-service training in the following years. Later in the same year, the CPC Central Committee and the State Council promulgated the

“Decision on the Deepening the Educational Reform and the Full Promotion of Quality Education”. This law signaled change of educational structure, educational system, aims, curriculum, and methods of teaching and learning.

These legislatures decentralize the governmental powers over education, broke down the boundaries of public and private sector and blurred the distinction between state and society. Through decentralization, China’s educational system soon exhibited features of marketization (Mok, 2001, pp.92).

A combination of laws and regulations marked the legalization of private education in China—minban education in Chinese: “Regulations on Education Provision by Social Forces” issued by the State Council in 1997; “Law on Promotion of Privately-run Education” in 2002; and the “Implementing Regulations for ‘Law on Promotion of Privately-run Education’” in 2004.

## 5.5.4 Structural Change in Education

Apart from the educational legislations initiated by the CPC Central Committee, the State Council or the Ministry of education, other patterns of efforts have also been made to foster the educational theory and practice in China. Grass-roots school-based changes take place for one thing. These bottom-up changes focus mainly on teaching methods that present the effectiveness in one school. As the changes are recognized by the media or the educational authority, they can be adopted by other schools.

Collaborative projects like the New Basic Education Project, conducted in five primary and five middle schools in Shanghai by a collaborative research team from the East China Normal University, aim to integrate comprehensive school improvement. The New Basic Education Project views school transformation as an integral to value promotion, re-focusing its attention toward all students in the class instead of only a few “elite” students, by using open structures, interactive processes, and internal motivation to reach its objectives. Researchers argue that value of modern schools lies not only in transmitting knowledge, but also serves social development and personal development and that modern schools should be open to broader inputs, including input from the internet, the media, the society in general, and local communities, and most importantly to be open to all the various possibilities for student development. The interactive process stresses active, purposeful and multiple interactions between multiple factors, multiple levels, and multiple groups (Lan, 2007, p.99).

### 5.5.4.1 Expansion of Higher Education

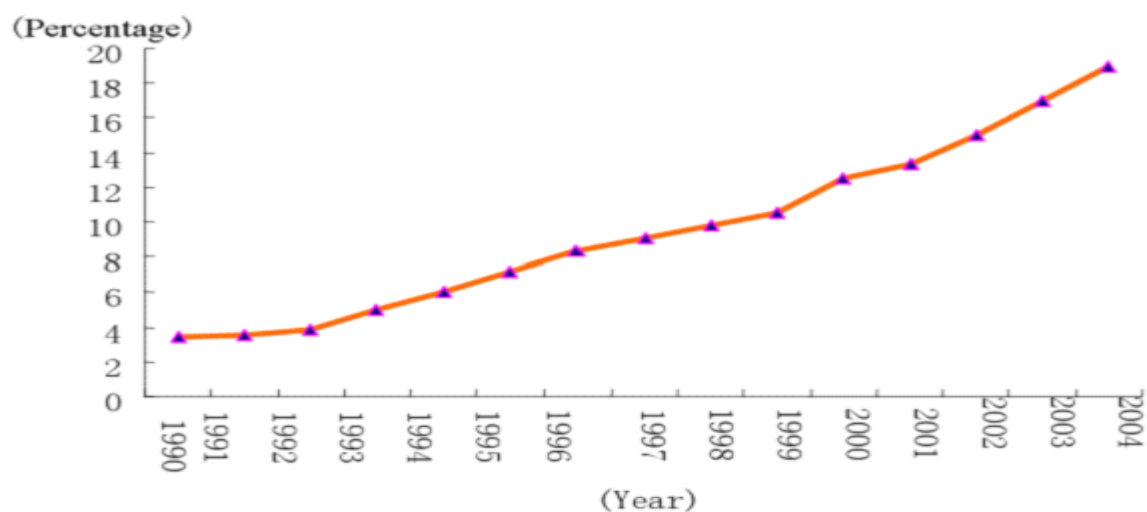
The structural change of education in China is most obviously embodied in higher education. Guided by the Law of Higher Education in 1998 and under



the announcement of the Ministry of Education, there were 50%, 25% and 15% expansions in 1999, 2000 and 2001 respectively and in the first-year enrolment to tertiary education as well, see table 5-10 (OECD, 2007, p.15). The overall enrollment in tertiary education is presently around 15 million. The huge demand of post-secondary education reflects the growth of Chinese society into a knowledge economy (Mok, 2001, p.94). The number of college graduates each year has increased from 1.15 million in 2001 to 4.2 million in 2006 (China Ministry of Education, 2005). At the same time, graduate school admission has become a priority for the majority of undergraduates. Some 1,24 million seniors have taken the national entrance examination for a Master's Degree in January, 2009. Even the number of doctoral students rose from 1000 in 1980, 15,000 in 1990, 100,000 in 2000, to 191,300 in 2005 (Hong, Shen, 2007, p.130).

The expansion of higher education resulted directly from the expansion of universities and colleges, because they needed more space to accommodate increasing numbers of students. Universities implemented their first expansion programs on the edge of urban areas as much as possible.

Figure 5-10 The Gross Enrolment Ratio of Tertiary Education of Cohorts Aged 18-22 in 1990-2004



From 1998, a policy principle of “Co-building”, “Adjustment”, “Cooperation” and “Annexation” was adopted, in which institutions merged with each other, for example, a few large-sized colleges and universities of medical science with high reputations were merged into comprehensive or multidisciplinary universities. After the annexation of higher education institutions, the number of institutions went down from 556 (387 regular TEIs and 169 adult TEIs) to 232 (212 regular HEIs and 20 TEIs) (OECD, 2007, p.62).

#### 5.5.4.2 Revival of Private Education

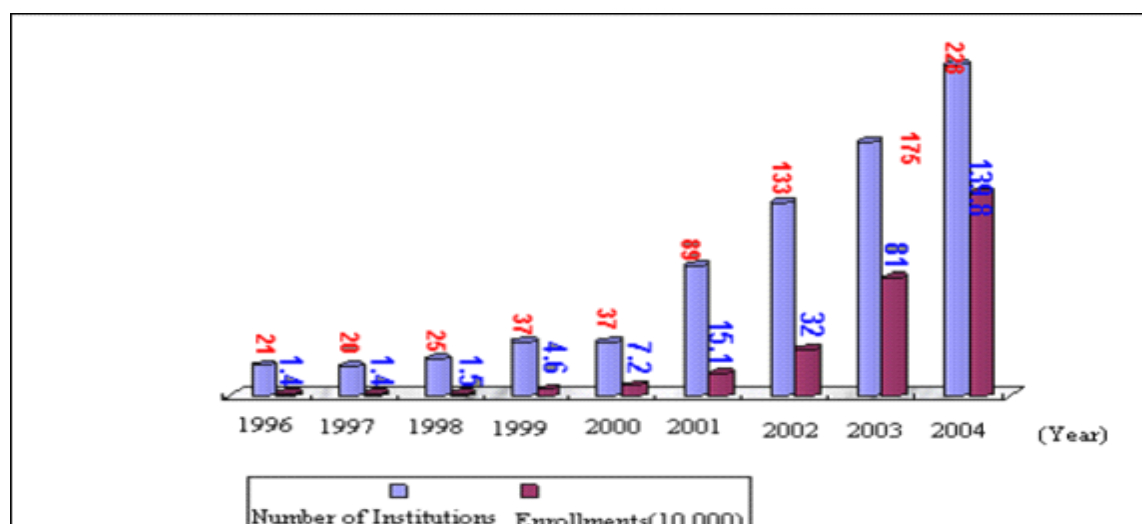
China has a long history of private education when the great philosopher and educator Confucius (551-749 BC) founded the first private school—named *Si Shu*—almost two and a half millennia ago. The Chinese word *Si* equals to private. However, private schools, accounted for only 40 per cent of all schools by 1949, and vitually disappeared after CCP made efforts to transform China into a socialist system with state ownership. By 1956, private schools were abolished; either closed down or concerted into public schools (Lin, 2007, p.44). It wasn't until in the late 1970s that Chinese private higher education reemerged thereby thaking the form of evening courses, weekend schools or correspondence universities. China's degree-granting minban education takes two forms: Independently-established minban TEIs, including minban regular TEIs and minban adult TEIs, which are private funded and operated; Independent colleges established by regular public TEIs with private funding and new operating mechanism.

In 2000, the number of private institutions with the authority to offer degrees had more than doubled, from 89 to over 200. By 2004, there were 228 independently-established minban TEIs that had authority to grant state recognized degrees, accounting for 13 per cent of all national TEIs (OECD, 2007, p.63).

Independent colleges offer undergraduate courses under the cooperation between public regular TEIs and social sectors—including enterprises, public institutions, social organizations, other agencies and/or individual. The independent colleges are privately funded and are independent legal entities with independent admission and degree-granting capabilities, as well as independent financing and accounting systems. The number of independent colleges around China has now reached 320 (ibid., p.64).

Private enrollment grew to over one million. Estimates on the private sector’s share of total enrollments have ranged from a fourth to even a third, although only about 40,000 of these students were in programs recognized by the Ministry of Education and thus permitted to grant bachelor’s or associate degrees (Cao & Levy, 2005, p.102). A typical private tertiary institution offers three types of programmes: formal programs within the state quota of students, semi-formal programs with negotiated quota, and non-formal classes for self-study examination with unlimited quota. Other forms include tertiary education agencies for self-taught adult students preparing for national examinations. Figure 5-11 shows such changes (OECD, 2007, p.18).

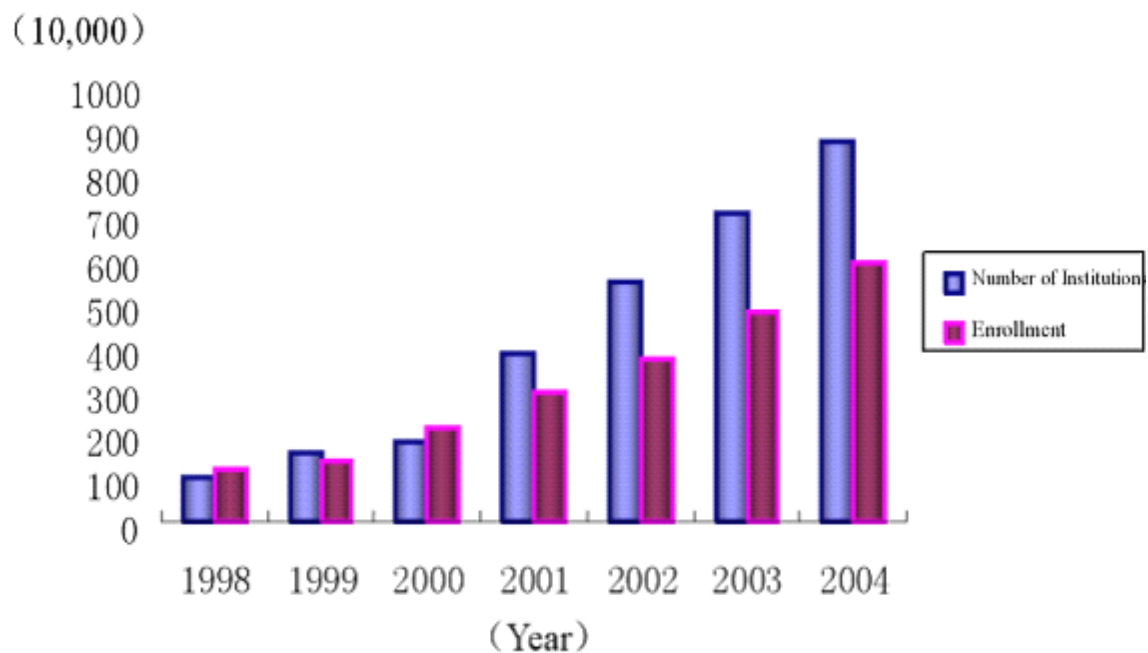
Figure 5-11 The Changes of Enrolment and Number of National Privately-run Tertiary Education Institutions in 1996-2004



### 5.5.4.3 The Rise of Vocational Education

The lack of well trained Chinese "trades" people (plumbers, electricians, welders etc.) is the greatest stumbling block to China's further modernization and development. So the Ministry of Education of China has begun to take actions in order to revitalize the national education system. Their efforts include funding for vocational education, the cultivation of qualified faculty, diversified adult education and life-long education. Figure 5-12 demonstrates the growth of enrolment and number of tertiary vocational institutions not affiliated to Four Year Institutions in 1998-2004 (OECD, 2007, p.17).

Figure 5-12 The Growth of Enrolment and Number of Tertiary Vocational Institutions Not Affiliated to Four Year Institutions in 1998-2004



Emphasizing vocational education marks an effort to link educational attainment with labor market needs. Ultimately, firms need and will recruit talents with matching specialties and qualifications.

#### 5.5.4.4 Educational Financing

Educational finance or funding of education refers to the provision of resources for schooling, including its financial forms and contributed resources. Since the early 1990s, there was a tendency to reduce government participation in tertiary education. The government tends to approve localization of funding and joint-ventures between the government and enterprises. However, private and joint-ventures from foreign investment have been prohibited. As a result, investors in educational ventures are heavily diversified compared with the previous purely public investor body. Now, there is a plurality of Educational Investors which consist of the government, private enterprises, society in general, as well as the educational institutions themselves, who are investing in for-profit institutions (Zheng, 2007, p.63) The privatization of public-sector financing allows public institutions to expand enrollment capacity quickly. The two major privatized financing sources for public higher education consist of tuition and bank loans.

Before the 1990s, fee-paying students were only a tiny group, but their numbers have been increasing since the adoption of the for-profit principle. The percentage of fee-paying students enrolled in higher education institutions in Shanghai grew from 7.5 per cent in 1988 to 32.1 per cent in 1994. In the year 1997-1998, the range of tuition fees varies across courses; students had to pay from 2500 to 3500 yuan (while the average per capita monthly salary in Guangzhou was lower than 1000 yuan in 1997) (Mok, 2001, p.94). While tuition compensates for the state's decreasing allocation, bank loans allow public institutions to garner as much as hundreds of millions of dollars.

Costs, involving both institutional costs of instruction and costs of student living, are everywhere in the world shared among governments (tax-payers), parents (or family), students, and philanthropists. The policy concerning higher educational costs is shifting from being borne predominantly by

governments, or taxpayers, to being shared in greater proportions with parents and/or students (Schwarzenberger, 2008, Foreword).

According to the author, all these changes in educational financing result from altered viewpoints on human capital, cost-sharing, and property.

## Human Capital Investment

“Education is a right” is inscribed in the Universal Declaration of Human Rights. Higher education accessibility is certified in article 26 of Universal Declaration of Human Right: “higher education shall be equally accessible to all on the basis of merit.” But the public systems of higher education around the world are caught between the rising cost of higher education and shrinking governmental budgets. Centralized funding system could hardly fulfill the public and private demand of education.

Public demand for education comes from the universal recognition of higher education as an engine of national economic growth and prosperity for both individuals and society (SCHEV report, 2003a; Marcucci et al., 2008). Economic research has consistently attempted to assess the quantitative impact of different variable on economic growth. Among all the variables, human capital constitutes a critical differentiator of a business as well as an individual (Schultz, 1961). Since then, the theory of human capital has been extended to cover areas like parental occupation, gender, ethnicity/ race, education, work experience and inherited wealth worldwide (Becker, 1993; OECD, 1998; Fitz-enz, 2000; Sofer, 2004; Chell, 2008).

Becker (1964) proposes a particular mechanism: education increases skills, and these in turn increase productivity; whereupon, higher productivity is then rewarded through higher earnings. He argues that individuals tend to sacrifice resources and satisfaction in the present in exchange for

compensatory satisfaction and resources in the future, commonly known as deferred gratification.

Human capital, is the value of incomes that stem from knowledge, attitudes, and skills accumulated from education, training and other investments in human development and is a crucial element in enabling the economically productive potential to be released for the development of national and regional economies (Becker, 1964; Becker, 1993; Mincer, 1993; OECD, 1998; Haveman, et al., 2003; Liu & Xiao, 2006; Keely, 2007).

Human capital formation refers to the process by which such capital is deliberately developed and accumulated, while the expenditure (in time, money, etc.) during the process is called human capital investment (Mincer, 1993; Baptiste, 2001).

Human capital theory posits that people invest a substantial amount of time and effort (including money) in education and training for the sake of their individual utility functions. The utility functions yielded from human capital investment incorporate all conceivable benefits and incentives, including mainly (1) a private rate of return leading to greater earnings or income to the individual; (2) a social or general rate of return leading to higher national and regional growth rates; and (3) an organization specific rate of return. In this way, human capital research has established a solid link between perceptions of investment in human capital, individual job satisfaction and organizational commitment (Mincer, 1993; Fevre, et al., 1999; Gunasekara, 2004; Palacios, 2004; Hagedorn & Forlaw, 2007; Hartog, et al., 2007).

Further more, human capital can be divided as general human capital (skills and knowledge transferable to other work settings) or specific human capital (skills and knowledge of use only in the particular company), which can be provided in on-the-job training (Xu, 2003).

Human Capital Theory regards education and training as an investment and reason that they can expect to profit from it in the long run. The incentives

to invest in human capital reflect the association between the labor market and decentralized educational financing.

In conclusion, human capital theory specifies some central insights about the relationship between educational attainment and earnings as well as the nature of earnings differentials, but it is basically a supply-side theory. In the real world, demand-side forces and the interaction between supply and demand factors are also operative (Mitchell, et al., 1990).

Private demand for education comes from the belief in private gains to be obtained through education. A number of governments and international bodies like the World Bank advocate cost-sharing or user-funding in financing post-compulsory education, that is, user's contribution to the cost of his or her own education (Chevaillier & Eicher, 2002; Hossler et al., 2007; Osipian, 2007; Kasa, 2008). The cost-sharing philosophy is in accord with a global trend of shifting an increasing share of education costs (or more properly expenditure) from governments or taxpayers to individual students and their families (Rasmussen, 2006; Marcucci & Johnstone, 2007). The rationales for this shift of cost burden involve:

- Individuals are considered the primary benefactor of tertiary education and private gains of education--such as elevated lifetime income, enhanced social status etc.--are substantial.
- The unprecedented expansion of student enrolments challenges the centralized funding tradition worldwide. The compelling facts that private expenditure of post-compulsory education increased, the costs of tertiary education magnified, calling for diversified funding resources and cost sharing.
- In competing with other public needs, such as health care and primary education, to increase tax revenues for post-compulsory education becomes even more doubtful in the context of increased austerity of public



revenue (or more precisely taxation) especially in transitional or developing countries.

- The so-called "free" higher education is as matter of fact paid for by all citizens (or more properly by taxpayers), but enjoyed principally by disproportionate number of children from middle, upper middle, and upper class. Tuition fees, whether it is zero, moderate, or high would make no difference for students from middle and upper income families--major beneficiaries of higher education. In this case, totally free higher education equals to a redistribution of income from the poor to the wealthy.
- Tuition fees, as a price on valuable commodity, would impel the buyer--students and families--to become more discerning consumers and the seller--universities and other tertiary institutions more cost-conscious and consumer-oriented providers. (OECD, 1998; Chevaillier & Eicher, 2002; Merisotis & Wolanin, 2002; Johnstone, 2003; SCHEV report , 2003a; SCHEV report, 2003b; Ziderman, 2003; Ishengoma, 2004; Kärkkäinen, 2006; Rasmussen, 2006; Hossler et al., 2007; Johnstone & Marcucci, 2007; Kwiek, 2008; Johnstone, 2009)

## Cost-sharing Strategy

Cost-sharing may vary in a spectrum of forms and functions in different countries, ranging from paying for tuition fees, sale of services by the institutions, to offering grants and donations, or limits to the diversification of resources, and so on (Chevaillier & Eicher, 2002). For example, charging tuition fees is one of the basic strategies of cost-sharing advocates. Under the philosophy of cost sharing, countries around the globe adopt different tuition fee policies or different combination of tuition fees. Johnstone and Marcucci (2007) illustrated that countries with public tuition fee policies, see table 5-13

(Johnstone & Marcucci, 2007, p.34), which fell into the following tuition fee categories:

- Up front tuition fee (paid frequently by parents at the time of matriculation)
- No tuition fees
- Deferred tuition fee (the deferred obligation, or loan, is either to be repaid on a predetermined fixed schedule or on a schedule that is based on the graduate's later earnings or income)
- Dual-track tuition fee (the most outstanding university applicants are financed by government or public resources while charging other admitted students on a fee-paying basis; and charging international students higher tuitions fees than domestic full-fee paying students)

(pp.26--33)

As a result, fees are either being introduced or being drastically increased, or by not covering the cost fees for room, board, books, and other costs of student living that may formerly have been covered mainly by the government (Johnstone, 2003).

## Property

Private enterprises in China fall into following categories of ownership: sole ownership, partnership, limited liability companies, and share-holding. Limited liability is a preferred type because business owners can protect their personal assets and collect capital from people beyond their family and friendship circles (Yang, 2007, p.103). On 16<sup>th</sup> March 2007, China's Property Law was enacted and passed in the Fifth Session of the Tenth National People's Congress (NPC). Under the law, all property owners—the state, the collectives, and individual or private entities—enjoy equal protection. Putting private and public sectors, and domestic and foreign firms on equal footing, is a

far-reaching step toward permitting and protecting the private ownership of property.

The issue of educational ownership has arisen with the diversification of educational services and the emergence of non-state-run educational institutions. Though property rights provide incentives for growth, impel competition and stimulate innovation, while academics urge more autonomy to increase educational development, nonetheless, the government still insists on holding on to its final decision-making power. In other words, the state acts as owner and regulator and principal agent as well. Fundamental and sustainable improvement of corporate governance cannot be achieved without reducing state ownership. Empirical studies show that private ownership is clearly advantageous in the aspect of efficiency, as shown in table 5-10 from Stübben's illustration (Stübben, 2007, p.64).

Figure 5-13 Types of Public Tuition Fee Policies

Up-front tuition fee	No tuition	Dual-track tuition fee	Deferred tuition fee
Austria	The Netherlands	Brazil	Australia
Belgium	Nigeria (State)	Denmark	Egypt
Canada	Philippines	Finland	Ethiopia
Chile	Portugal	France <sup>1</sup>	Hungary
China	Singapore	Francophone Africa	Kenya
Hong Kong	South Africa	Germany <sup>2</sup>	Poland
India	Spain	Greece	Romania
Italy	Turkey	Ireland <sup>3</sup>	Russia
Japan	England (now)	Luxembourg	Tanzania
Kenya	United States	Malta	Uganda
Korea	Wales (now)	Nigeria (Federal)	Vietnam
Mexico		Norway	
Mongolia		Sweden	
		Tanzania	

Notes: <sup>1</sup>The 1958 French Constitution defines access to education as free; however, registration fees of approximately Euro 230/year (US \$256 using 2004 ppp conversion) are charged to cover administrative costs and health costs. <sup>2</sup>Recent legislative changes allow individual states to introduce tuition fees. <sup>3</sup>While Ireland's universities do not charge tuition fees, they do charge students a yearly student service fee of Euro 750 (US \$742 using 2004 ppp conversion) (2005).

Table 5-10 Selected empirical studies on public versus private ownership

<b>Study</b>	<b>Sample description, study period, and methodology</b>	<b>Summary of findings and conclusions</b>
Boardman and Vining 1989	Examines economic performance of 500 largest non-US firms in 1983, classified by ownership structure as State-owned-enterprise (SOE), private, or mixed (ME).	SOEs and MEs are significantly less profitable than private firms. MEs are no more profitable than pure SOEs—so full private ownership is required to gain efficiency.
Vining and Boardman 1992	Asks whether ownership “matters” in determining efficiency of SOEs, or if only the degree of competition is important. Estimates performances model using 1986 data from 500 largest no financial Canadian firms, including 12 SOEs and 93 MEs.	After controlling for size, market share and other factors, private firms are significantly more profitable and efficient than MEs and SOEs, though now find that MEs outperform SOEs. Thus, ownership has an effect separable from competition alone.
Pinto, Belka and Krajewski 1993	Tests whether privatization is required to improve performance in SOEs by examine how Polish state sector responded in the 3 years after “Big Bang” reforms of 1990, which liberalized prices, tightened fiscal policy and introduced competition, without privatization.	Significant performance improve-ment due to macroeconomic stabili-zation package, even without privatization; mostly due to hard budget constraints, tight bank lending policies, enhanced credibility of government’s “no bailout” pledge.

Ehrlich, Gallais- Hamonno, Liu, Lutter 1994	Examines impact of state ownership on long-run rate of productivity growth and/or cost decline for 23 international during airlines 1973-83.	State ownership can lower long-run annual rate of productivity growth by 1.6-2.0% and rate of unit cost by 1.7-1.9%. Ownership effects not affected by degree of competition.
Majumdar 1996	Using industry-level survey data compares performance of SOEs, MEs, and private Indian firms for 1973-89. SOEs and MEs account for 37% of employment and 66% of capital investment in India in 1989.	Documents efficiency scores averaging 0.975 for private firms, significantly higher than averages of 0.912 for MEs and 0.638 for SOEs. State sector efficiency improves during “efficiency drives” but declines afterwards.
Kole and Muhlerin 1997	Tests whether postwar performance of 17 firms partly owned by US government due to seizure of “enemy” property during WWII differs significantly from performance of private US firms.	Though these firms experience abnormally high turnover among boards of directors, manager tenure is stable, and SOEs performance is not significantly different from private firms.
Dewenter and Malatesta 2001	Tests whether profitability, labor intensity, and debt levels of SOEs listed among 500 largest non-US firms in 1975, 1985, and 1995 differ from private firms on same	After controlling for business cycles, finds private firms significantly more profitable, have significantly less debt, and less labor intensive production processes

	lists.	than SOEs.
LaPorta, Lopez- de-Silanes, and Shleifer 2000	Using data from 92 countries, examines whether state ownership of banks impacts financial systems development and growth rates of economy and productivity.	Extensive state ownership, especially in poorest countries, retards financial systems development and restricts economic growth rates, mostly due to impact on productivity.
Tian 2000	Studies relation between state shareholding and firm performance of 825 publicly traded Chinese firms in 1998. 413 had some government ownership, 312 had none.	Performance of “private” enterprises significantly superior to “mixed” enterprises. Corporate value generally declines with state ownership, then increase after state share passes 45%.
Karpoff 2001	Examines 35 government financed and 57 privately funded expeditions to the Arctic from 1819-1909.	Private expeditions performed better using several measures of performance. More major discoveries were made by private expeditions; most tragedies occurred on government-sponsored expeditions. Robust results in regression explaining expedition outcomes.

Source: based on Megginson and Netter (2001), Stübgen, F. (2007).

## CHAPTER-6

### DISCUSSION

#### 6.1 Introduction of New Institutionalism

The contending analytical approaches known as New Institutionalism has three major schools of thought: Historical Institutionalism, Rational Choice Institutionalism, and Sociological Institutionalism, and they share similar views on the role that institutions play in the determination of social outcomes (Hall & Taylor, 1996; Thelen, 1999; Thelen, 2002).

Firstly, Historical Institutionalists tend to conceptualize the relationship between institutions and individual behaviors in relatively broad terms and define institutions as organizations with formal or informal procedures, rules, norms and conventions on which such organizations run (Hall & Taylor, 1996; Thelen, 1999; Thelen, 2002). The interests of the Historical Institutionalists lie in construing and elaborating the distinctiveness of political outcomes of broad interests in the real world, which are shaped by specific political institutions and according political processes. Inductively, they search for explanatory arguments for the historical and institutional phenomenon they observe, specifying path dependence and unintended consequences, and emphasizing the power asymmetries associated with the operation and development of institutions (Hall & Taylor, 1996; Mahoney, 2000; Pierson & Skocpol, 2002). Historical Institutionalists are focused on explaining why and how certain patterns or structures take shape, why and how certain organisms or institutions evolve, why some flourish in some times and places and some die out in others, rather than presuming that certain events or arrangements apply at all times and places (Steinmo, 2001; Pierson & Skocpol, 2002). In this sense, the author believes that Historical Institutionalism can be employed to explain

the “yesterday” of the for-profit education in China, in other words, to explain why the for-profit Edupreneurs emerged and developed in China and why this upsurge took shape in some countries, but not others.

Secondly, Rational Choice Institutionalists are theorists (Fiorina, 1995), interested in explaining political behavior and action in the logics of games (settlers, prisoner dilemma, tit-for-tat etc.). They define institutions as the rules of the game in a restrictive sense (Immergut, 1992), and see politics as a series of collective action dilemmas, like the prisoner’s dilemma, the tragedy of the commons and so on (Gibbons & Rutten, 2004). Rational Choice Institutionalists argue that the development of a particular organizational form can be explained as the result of an effort to reduce the transaction costs of undertaking the same activity without such an institution. Once stabilized, institutional structures are difficult to change, because changes or new institutional rules with new strategies, imply uncertainty and unlikelihood of predicting the effects of the change, which often frightens actors in the system. However, political transitions seem to defy rational choice analysis (Bates, R. H. et al, 1998). In this sense, the author believes that Rational Choice Institutionalism can be employed to explain the “today” of the for-profit education in China, in other words, to discuss what the for-profit Edupreneurs’ promises and perils in operation are.

Developed within organizational theory dating from late 1970s, Sociological institutionalists define institution as symbol systems, cognitive scripts, and moral templates that provide the frames of meaning guiding human actions, embedded in and also reflecting social norms and cultures (Jepperson, 2001). In light of this definition, culture itself is deemed as institution, involving a network of routines, symbols, scripts, and behavior templates. Hence, challenging the belief since Weber that bureaucratic structures of modern organizations are the products of the inherent rationality or intensive effort for efficiency, Sociological Institutionalists adopt cultural terms to explain bureaucratic practices such as institutional forms and



procedures in modern organizations. They are interested in striking similarities in institutional forms, procedures and practices through organizational fields or across nations. In this sense, the author believes that the theory of Organization Field of Sociological Institutionalism can be employed to explain the development or trend, for instance, the process of homogenization of the for-profit education in China.

In short, the author employs all three approaches to explain the “yesterday” (emergence and growth), “today”(strengths and weaknesses) , and “tomorrow” (development).

## 6.2 Application of Historical Institutionalism

According to Historical Institutionalism, two issues are central to institutional analysis (Hall & Taylor, 1996): 1. How do institutions affect the behavior of individuals, and 2. How is the process of institutional change elucidated? Furthermore, the first question contains three seminal questions: a. how do actors behave and react; b. what do institutions do, and c. why do institutions persist over time.

In answering this series of questions, two approaches are termed: the calculus approach and the cultural approach. These two approaches provide different explanations for above questions. The author contends that both the calculus approaches and the cultural approach can be employed to shed light on for-profit education.

After an institutional analysis of Chinese Edupreneurs, the author will further apply other fundamental features of Historical Institutionalism into this study of for-profit education, listed as 3. What role do power and asymmetrical power relations play?

1. How do institutions affect the behavior of individuals?

a). How do actors behave and react

Scholars take the calculus approach believe that actors, with certain preferences, behave instrumentally to maximize the attainment of these preferences in a strategic manner. In other words, human behavior is instrumental and based on strategic calculation, because individuals tend to make choices that generate the maximal benefit or attainment of goals after canvassing all options available. Hence, actors behave as maximizers. Advocates of the cultural approach contend that individuals act also upon interpretation of a situation and their worldview apart from being rational or strategic. Hence, actors are satisfiers (Hall & Taylor, 1996).

The author explains cross-national differences in for-profit education by referring to the willingness and readiness of social groups—disparate producers, consumers, overseers, and advisor— to compromise with the advocate of reforms. This willingness and readiness is related to these social groups' expectations about the feasibility and success probability under a certain legislature framework. As stated in previous chapter 5.5.1., tremendous transformation took place after China has undergone economic reforms and successes. Consequently, needs and demands for more learning opportunities have been soaring, because low-skilled labor as a whole is gradually marginalized. Independent institutions thus have been in drastic rise, for unfulfilled needs and demands predict profit prospects in business. This is a classic calculus approach.

However, not all countries are willing or ready to welcome the profit from educational provisions. The concept of “Bildung” in Germany, one of the central notions of the modern Western educational tradition since Humboldt's times, has been widely accepted in German-spoken area as the cultivation of the inner life or human mind and soul, as the ongoing process of both personal capability and cultural maturation (Ehrenspeck, 2010). Under this line of comprehension, profiting from individual formation and edification, or even the thought of it, seems neither acceptable nor appealing. Therefore, even the concept of for-profit education has never been popular in the mainstream educational discourse, let alone be promoted or supported either by academia or legislature. Such is a classic culture approach.

1. How do institutions affect the behavior of individuals?

b).What do institutions do

Furthermore, the calculus approach emphasizes the role of strategic interaction in determination of political outcomes and argues that what Institutions do is to structure strategic interaction by altering the range and sequence of alternatives on the choice-agenda, or by offering information on

enforcement mechanisms, penalties of defection, corresponding behavior, and so on. However, the cultural approach contends that Institutions influence actors' identities, self-images and preferences by providing moral and cognitive templates for interpretation and action (Hall & Taylor, 1996). So on the one hand, Chinese Edupreneurs' behaviors are likely to be driven not by impersonal historical forces, but by a strategic calculus. On the other hand, the calculus will be deeply affected by the Edupreneurs' expectations on how others are likely to behave as well, for they share similar identities, self-images and preferences.

The author depicts operations and actions of Chinese Edupreneurs providing greater or lesser certainty about the current and future behavior of actors in organizations. And different degrees of certainty are likely to stimulate strategic competition and interaction. According to the findings formulated in chapter 5.3 and parts of analysis in chapter 6, for-profit educational institutions in China tend to adopt rigorous policies in recruiting, before-job training, and regular performance evaluation, especially those who put effort on branding. One of the most distinctive assessment features is the system grading faculties and staffs, strictly linked to actors' compensation, promotion and the like in the organization. In this way, institutions affect actors' expectations on the organization itself as well as behaviors of fellow actors. In other words, actors are certain about their gains from the organization as long as they fulfill criteria, while uncertain about the ultimate results because other actors in the organization may take strategic and purposive actions too.

Strategic interaction also plays a role in analyzing distinction and stratification between for-profit educational institutions. Stratification occurs when consumers of educational products and services become less evenly distributed across institutions. Under such pressures, Edupreneurs deploy distinctive approaches in operation depending on the nature of the products and the market segment they have chosen to serve. They streamline internal business process; they may extend product lines or specify in single provision,

standardize course delivery or encourage diversified demonstration, aiming at better adapting to the external business environment, and eventually generate more profit. This is a classic calculus approach.

Simultaneously, most of the Chinese Edupreneurs also advocate core values and behavior templates, composed of symbols, visions, ethos, maxims, and routines. In some cases, institutions could even develop a unique style of instruction—such as New Oriental Style—and enjoy popularity and reputation around China. Such is a culture approach.

1. How do institutions affect the behavior of individuals?

c). Why do institutions persist over time

As for the question why do institutions persist over time, the calculus approach believes that adherence to certain patterns of behavior will out-gain the deviation, according to Nash equilibrium, while the culture approach attributes it to the taken-for-grantedness of some institutions so that they escape scrutiny, and the resistance to re-design because they structure the choices about reform that the individual is likely to make (Hall & Taylor, 1996).

The author depicts path dependence of Chinese Edupreneurs by referring to the operational consistency and institutional similarities concluded from empirical data. According to the findings formulated in chapter 5.3 and parts of analysis in chapter 6, Chinese Edupreneurs show dynamics of self-reinforcing, in that economic returns and positive feedbacks trigger the reinforcement of certain patterns into the future. Once patterns of business models and channels established, the operational style of for-profit educational institutions often generates self-reinforcing dynamics. Once actors in the institutions follow along a certain path, it is difficult for them to deviate or reverse course. That's why Chinese Edupreneurs are seen with similar strategic objectives, marketing channels, and revenue sources. Moreover, individuals in such institutions also take such behavior patterns for granted. Such is the path dependence or operation inertia of for-profit education, influenced also by other fundamental

justification for historical processes, such as the issues of timing and sequencing (Pierson & Skocpol, 2002).

## 2. How is the process of institutional change elucidated?

Historical Institutionalists believe that institutions do not change easily, and view changes or outcomes as products of the convergence of various factors, and of integrating institutional analysis with ideas and the like.

The author explores the distinctive paths and status of public versus private as well as private non-profit versus private for-profit education around the world, especially in the United States, Germany, and China (see Chapter 2). It is the onset of a combination of momentums—involving internationalization, globalization, privatization, and life-long learning altogether, described in chapter 3.3—these are crucial to paths for the emergence of Edupreneurs'. Where countries embrace before-mentioned trends actively during the past decades, they are more likely to see the boom of for-profit of education, like in China. Generally speaking, the United States, leading the trends of privatization together with globalization and internationalization in education and training sector, also lead the for-profit education upsurge. By the same token, China echoed aforementioned trends vigorously during the latest two decade, triggered thus the boom of Chinese Edupreneurs. On the other hand, Germany's refusal of privatization in education deeply rooted in its societal and cultural tradition and has not changed too much even in an era of globalization. As a result, for-profit education has not yet been widely accepted in academia and the public in Germany.

## 3. What role do power and asymmetrical power relations play?

Power relations are critical in institutional studies. Historical Institutionlists especially center on the uneven distribution of power across social groups and individuals (Hall & Taylor, 1996). In the case of Chinese for-profit education, the asymmetrical power relations across Edupreneurs resulted from both the

visible hand and the invisible hand. The visible hand involves government support and media coverage of different levels, owing to the pursuit and maintenance of government relations as well as media relations of respective Edupreneur. The invisible hand refers to market force, like the injection of venture capital. Illustrated in Chapter 2.4.2.3, enormous amount of untapped market value has been invested in private education companies by venture capital firms and other investors. The author exemplified this phenomenon with investment deals plus merger and acquisition in education sector in China (see Table 2-24, and Table 2-25). However, such investment has, by no means, been proportionately distributed across all market segments or all players. Only major players in the most promising segment are likely to be favored by investors. And investment, in turn, cements or increases both the relative market share and the market growth rate of those major players, leading to continual economic success of some institutions while gradual shrink or loss of others. Since 2006, Initial Public Offering (IPO for short) has been widely considered a financial stimulant for Chinese Edupreneurs faced up with capital shortage, because the example has been made by New Oriental Education and Technology Group Inc. listed on the New York Stock Exchange. Most ambitious Chinese Edupreneurs set their goals for the IPO (see Chapter 5.4), because they believe financial power plays a prominent role in the ferocious competition of for-profit education.

### 6.3 Application of Rational Choice Institutionalism

New Institutionalism influences the theory of economics and political science. The principal-agent theory and the transaction cost theory (Williamson, 1985) constitute the core of new institutionalism viewpoints in economics. Rational Choice Institutionalists draw analytical tools from New Institutional Economics which stresses the importance of property rights, rent-seeking, and transactions costs for the operation and development of institutions. They create deductive model and test it in the real world (Hall & Taylor, 1996; Steinmo, 2001). In this sense, the author believes that the principal-agent theory and the transaction cost theory can be employed to explain the “today” of the for-profit education in China, in other words, to discuss what the for-profit Edupreneurs’ promises and perils in operation are.

#### The Principal-agent theory

Principal-Agent Theory accounts for both actor motivation and the role of organizational structures in constraining that behavior. According to principal-agent theory, organizations are bundles of explicit and implicit contracts that define the relationship between principals and the agents. The common unit of analysis and assumption is the contract between the principal and the agent (Rowan & Miskel, 1999). The author suggests that theories of agency, which focus on the institutional mechanisms whereby “principals” can monitor and enforce compliance on their “agents,” could be useful for explaining how Edupreneurs structures relations with its stakeholders (regulatory agencies and clients).

The success of any contemporary enterprise is credited to the actions of individuals. “Whenever one individual depends on the action of another, an agency relationship arises. The individual taking the action is called the agent.



The affected party is the principal.” (Pratt & Zeckhauser, 1985, p.2) The Principal-agent relationship in different areas displays different characteristics (Segel, 2005). Generally speaking, the principals in education are parents and taxpayers. Both as stakeholders in the educational marketplace, parents expect schools to create human capital in their children; taxpayers expect the quality of education for their investment (Rapp, 2000). However, the author contends that the agency relationship of education in China is more complicated. In the case of Chinese public education, taxpayers and parents are supposed to be principals who delegate the task of educational provision to administrators. The administrators manage public educational institutions and then individual teachers. In other words, public institutions are the agents; Chinese government is the principal. Government of different levels in turn is the agent of taxpayers and parents. In the case of for-profit education, the agency relationship tends to be simpler and clearer. Chinese Edupreneurs are the agents, clients are the principals. Clients could oversee the quality and results of Edupreneurs’ offering directly and cost less.

The agency relationship might be reciprocal under most circumstances, in which a principal reaches certain goals through an agent, who acts on their behalf (Pratt & Zeckhauser, 1985; Moe, 2002). However, the control problem between principals and agents problem arises because “(1) the agent’s actions are not completely observable; and (2) the outcome is affected by, but not singularly determined by the agent’s actions” (Rapp, 2000, p.40). That is to say, it is hard to maintain oversight of the agent’s service to address the principal’s interests and needs when their actions and information are not observed or monitored by the principal.

Taxpayers in China are entitled to benefit from the educational services of appropriate quality in the public education system, which is majorly produced and conducted by public educational institutions over years. In reality, however, taxpayers and parents could not monitor the actions of each administrator perfectly, nor could administrators oversee the actions of each public institution

perfectly. As a result, the present educational system has severe problems from inherent disparities and deficiencies. As stated in previous chapter (see 5.5.2.3., and 5.5.2.4.), disparities of the current educational system include the disparity between urban and rural area, between key schools and ordinary schools and between general education and vocational education. Deficiencies of the current educational system are shown by the expenditure deficit, the lack of effectiveness in schooling, and commercialism in public schools. Taxpayers and parents in China have demanded more accountability from teachers and schools.

One consequence of the issue of nation-wide education is the educational reform in China which has been re-organizing the educational structure and adjusting educational management system— decentralization as case in point—beginning for late 80s and early 90s (see Chapter 6.1.2). Cavaliere and Scabrosetti (2007) have surveyed the theoretical literature on privatization and efficiency with the applications of agency theory, and found out that although the effects of privatization on efficient allocation of resources still remains uncertain, however, it is believed that it may increase productive efficiency when restructuring takes place. The author contends, from a Rational Choice Institutionalism point of view, education reform in China, especially the items that encouraging the involvement of social groups and private funds, has reshaped the agency relationship between relevant parties in that for-profit educational institutions are involved as direct agents for the ultimate principal—the clients of educational offerings, most of which are taxpayers. In effect, for-profit education in China serves to supplement educational expenditures by the government, diversifying educational provision, increasing educational opportunities and raising the principals' expectations about investment in education for results such as an increase in future earnings and employment opportunities.

According to Hall and Taylor (1996), Rational Choice Institutionalism explains the origin and existence of an institution by reference to the values for

the actors that the institution performs influenced by the institution. In the for-profit education, where parents have the option of choosing among various offerings from various Edupreneurs for their children, competition for quality and service exists. If for-profit education is subject to a process of competitive selection, it survives and prospers mainly because it provides more benefits to the relevant actors than alternate institution forms. As the economics of the Principal Agent Theory assumes, much of organizational life is based, at least partly, on people's self-interest, opportunism and goal conflicts (Rowan & Miskel, 1999). In for-profit education, the agent's remuneration is linked to their performance-based on their success at serving the principal's goal. This mechanism is used to measure both an individual's performance and the performance of a group. Assessing performance has been implemented systematically to avoid poor performance and stimulate work incentives.

#### The Transaction Cost Theory

Transaction costs, property rights, and contractual relations form the foundation of Institutional analysis in economics. Transaction costs are "costs of agreeing a contract (including measurement of all the attributes relevant for the exchange) and the costs of enforcing the contract (including the costs of detecting infringement, policing and punishing (Harriss, et al., 1995, p.74). Contracts in the for-profit education are produced by individual exchanges, like clients choosing certain educational offering after weighing the alternatives. The sources of transaction costs in for-profit education include the difficulty of foreseeing the unexpected political contingencies in China, and the cost for managerial contingencies especially when Edupreneurs are under expanding. Other costs involve tasks like writing a legally binding contract.

A transaction costs approach assumes that contracts are incomplete because not all contingencies can be anticipated (i.e., bounded rationality) and enforcement is imperfect (i.e., detecting and punishing noncompliance is

costly). In order to minimize transaction costs of involving exchange and maximize the benefits of certain property, Chinese Edupreneurs tend to contract for the best way to structure the use of that property. Some Edupreneurs take forms of shared or common property rights where a group of owners holds specific rights in common including the right to exclude non-owners; other choose private property share, where individual members have a recognized right to benefit from the for-profit educational offerings and other activities.

The enduring commitment to individual property mirrors the operation of economics. And the developments on property rights have been taken “as a major reform measure to improve efficiency” in transitional economic scenarios (Tian, X, & Lo, V., 2007, p.69). The author suggests that stronger ownership stakes by non-government shareholders like individuals in for-profit education lower the political cost, stimulate sounder monitoring and raise the accountability pressure for executives.

## 6.4 Application of Organizational Field

DiMaggio and Powell (1983) define Organizational Field as “a recognized area of institutional life” constituted by a set of disparate organizations, including “key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products” (p.148). In this sense, Organizational Field refers to “the totality of relevant actors”, rather than just the competing companies or networks of interacting organizations (ibid.). The emergence and structure of an Organization Field results from the common activities of a diverse set of organizations sharing common meanings and interacting more often among themselves than with actors from outside the field (Machado-da-Silva, et. Al., 2006). These diverse organizations will homogenize once this certain Organization Field is established, that is, organizational fields follow an evolutionary path from diversity to homogeneity (Meyer & Rowan, 1977; DiMaggio & Powell, 1983; Friedland & Alford, 1991; Levy, 1999). In order to determine the structure of any Organizational Field, empirical investigation is needed. The process by which a field comes to be organized consists of four stages:

- an increase in the extent of interaction among organizations in the field;
- the emergence of well-defined patterns of hierarchy and coalition;
- an upsurge in the information load with which organizations in a field must contend;
- the development of a mutual awareness among participants that they are involved in a common enterprise.

(Powell, 2007)

With abundant empirical findings in the last few chapters, the author provides evidence that Edupreneurs or for-profit educational organizations in China have constituted an Organizational Field of for-profit education, in which

disparate producers, consumers, overseers, and advisors engage in common activities, liable to homogeneous regulatory and reputational pressure. Four parts structuring the Organization Field of for-profit education have been seen activated. Specifically, the tentative classification model of Chinese Edupreneurs (see 5.2) depicts the patterns of hierarchy and coalition as in training objective and firm size. Moreover, these Edupreneurs compete with each other when their offerings target prospective consumers of similar age groups. Such competitions within Edupreneurs manifest in branding, media presence, relevant forums or conferences, as well as various marketing and promotion activities, which deepen the interaction and mutual awareness among actors. They are thus more aware that they are participating in the for-profit education and training sector. In brief, Edupreneurs in the Organization Field of for-profit education respond to an environment that consists of other Edupreneurs responding to their environments, that is, Edupreneurs respond to an environment of Edupreneurs' responses.

Yet, "the aggregate effect of individual change is to lessen the extent of diversity within the field (DiMaggio & Powell, 1983, p.149)." No matter how diversified the approach and form of the organization fields may display in the initial stages of their life cycle, inexorable forces lead them to homogenize once an actual field is established within organizations in the same line of business. Such process of homogenization has been termed as isomorphism, in which units resemble other units faced with equivalent environmental conditions (Hawley, 1968), or less successful forms are obsolete or eliminated through the process of selection (Hannan & Freeman, 1977).

Isomorphism involves two types: competitive and institutional. Competitive isomorphism, described fully in classic and recent studies, stresses market competition for resources and customers among organizations, habitat shift or niche change, and measures taken to increase the fitness with the environment (Hannan & Freeman, 1977; Meyer & Rowan, 1977; DiMaggio & Powell, 1983; Rowan & Miskel, 1999). This line of thinking sheds light on why

early Edupreneurs in China developed new practices and adopted innovations. Nearly two decades ago, early Edupreneurs in China started trying to sell courses outside of formal education and traditional facilities. That was a time when each organization acted or practiced differently from each other. Some of them then gradually changed their objectives or strategies as lessons learned from the practices, for instance, they modified their curriculum or syllabus, and innovated or developed new practices. Edupreneurs making changes or adopting innovations are basically driven by a pursuit of improved performance and maximized profit. As an innovation spreads, the adoption of innovation provides largely legitimacy instead of improved performance. And in turn, these legitimized options enhance the likelihood of the adoption. As a result, Chinese Edupreneurs show similar operational processes and techniques, for example, in terms of recruiting personnel, structuring divisions, designing curricula and so on. The author conceptualizes the emergence and upsurge of Chinese for-profit educational organizations as a process driven by competitive isomorphism, which has improved organizational efficiency and productivity.

Institutional isomorphism, the other type of isomorphism, emphasizes factors that adapt firms to the outside world, because organizations also compete for power and legitimacy with other organizations in the field. Institutional isomorphism occurs through three mechanisms: coercion, mimicry, and expert influence. While each mechanism shows a different process, they may play roles at the same time (Hannan & Freeman, 1977; Meyer & Rowan, 1977; DiMaggio & Powell, 1983; Rowan & Miskel, 1999). The author conceptualizes the emergence and upsurge of Chinese for-profit educational organizations as a process driven by coercive, mimetic, and normative isomorphism. These three categories of isomorphic changes reflect organizational efforts to secure legitimacy and survival, rather than expectations to yield benefit as does the competitive isomorphism.

The author considers government mandates and the prevailing legal

environment as key actors responsible for coercive isomorphism. As described in previous chapters (see 5.4.1 and 6.1.2.2.), the ups and downs of Chinese for-profit education have been tremendously influenced by legislature and the legal requirements of the state. A case in point is the affirmation that the state supports the financing and educational provision of enterprises, social institutions, local communities, and individuals due to “The Program for Reform and the Development of China’s Education” in 1993 coincided with the first upsurge of Chinese Edupreneurs. Again, the implementation of “Law on Promotion of Privately-run Education” in 2002 and related regulations in 2004 accorded with another boom of for-profit education. Conformity or organizational change is the direct reaction to political power and government mandate in China, and a common legal environment helps shape the behavior and structure of organizations, because institutional legitimacy is the first concern of any operation in China.

Another pattern of coercive isomorphism in the case of Chinese Edupreneurs occurs in the conglomerate corporation. As a corporation expands in size and scope, such as the New Oriental Education and Technology Group, standards or benchmarks are imposed from headquarters to subsidiaries. The standardization process involves performance criteria, operational procedures, methods, philosophies and the like, and enables subsidiaries to be compatible with management of the parent corporation. Other cases in this study like Juren Education Group, Xueersi Education Group, Sunland Career, and CG Power Animation School all displayed such homogenization of subsidiaries, the result of a standardized mechanism.

Apart from coercive authority, mimetic isomorphism occurs under the force of uncertainty. That is, when an organization is uncertain of its goals, means or solutions, it may model itself after other organizations, oftentimes, those whom it perceives to be more legitimate or successful. The mimetic behavior of the imitators is advantageous for them as they harvest convenient practices and viable solutions at little cost. And yet, the modeled organization may be



unaware of the modeling process or unwilling to be copied (Hannan & Freeman, 1977; Meyer & Rowan, 1977; DiMaggio & Powell, 1983; Borum & Westenholz, 1995). The author considers uncertainties, stemming from radical economic transformation and the lack of talent or capital, as key actors responsible for mimicry or mimetic process of for-profit education in China. As described in previous chapters (see 5.4.4 and 6.1.1.1), China has made great economic progress with double-digit growth since the policy of opening up for foreign trade and investment in late 1970s. And newly initiated reforms intensified the economic transformation and structural shift both in private and public sphere. Under the momentum of economic success, the market of education and training has also been expanding, and key players in the Organization Field of Chinese for-profit education like the New Oriental Education and Technology Group and Xueersi Education Group have been building up more subsidiary schools or centers around China. Consequently, Chinese for-profit education needs principals and department heads of subsidiary schools that are experienced, adaptive, well-established, and well-connected, as well as other levels of qualified talents. So the uncertainties greatly lie in whether or not Edupreneurs could clarify their primary goals, make their major decisions, find sound solution to ambiguous problems in a rapid changing environment, and whether or not Edupreneurs could recruit talented personnel who are qualified to shoulder the before mentioned responsibilities. Under these circumstances, some organizations imitate practices perceived to be successful or model themselves on prototypes through personnel transfer and turnover. It is thus fairly often for a small Edupreneur in China to recruit high profile talents from a bigger Edupreneur through headhunts and the like. Mimicry, directly or indirectly, speeds up the homogenization process.

Last but not least, the third source of institutional isomorphism is the normative pressure or professionalization. Professionalization refers to (1) formal education and legitimating of the knowledge base produced by experts

or university specialists, (2) the increase of professional networks for another. And mechanisms pushing normative isomorphism include the filtering of personnel, the exchanging of information among professionals, and the creating of career path (Hannan & Freeman, 1977; Meyer & Rowan, 1977; DiMaggio & Powell, 1983, Mezias, 1995). The author asserts certain criteria of employment and constant trainings account for normative isomorphism of for-profit education in China. As discussed in previous chapters (see 5.3.4, and 5.3.6), standards of recruiting faculty in Edupreneurs are comparatively exacting, with higher educational level being a must and teaching experience preferable. Sometimes Edupreneurs also hire experienced employees from companies in the same field. Once hired, the new employee passes through a series of trainings which continue throughout their term of employment and which helps to advance their career in the organization. The typical career path would flow from junior instructor to middle instructor, to senior instructor, star instructor and finally to trainer of instructors, which provides an institutional vehicle for normative isomorphism to occur.

Tuttle & Dillard (2006) suggest that it is possible for coercive, mimetic, and normative isomorphism simultaneously to occur within the Organization Field of for-profit education (p.13). For instance, a previous trainer of instructors in the New Oriental Education and Technology Group left the company to start his own training facility. He designed products using professional skills accumulated from his former workplace. He needed to legitimize his offering, and was likely to borrow acceptable behaviors from what perceived to be successful in the previous experience. To the extent this happens, both mimetic and coercive pressures simultaneously come into play and are reinforced by the normative legitimacy of the standards.

## CHAPTER 7

### IMPLICATION

#### 7.1 Conceptualization of an Ideal "Edupreneur"

What makes a successful "Edupreneur" in the marketplace of China? In answering this question, the author contends that education entrepreneurship is the key, and a successful entrepreneurial organization consists of a visionary entrepreneur, an effective quality assurance policy and shared learning..

#### Visionary Entrepreneur

As stated before, new institutionalism incorporates theories about the power of institutional structures along with theories about the power of individuals. Purposefully designed social institutions structure the world and institutions which subsequently constrain and structure individual behavior.

Educational companies are first designed and then initiated by the founder(s) for a variety of reasons which then results in policies that influence the behavior of individuals as well as the administrators, faculty and students. The successful operation of educational companies requires a thorough comprehension of the relationship between individuals and the organization, which in turn balances the influence of the organizational structure on individual actions with the decision making behavior on the organization. According to Wiewel and Perry (2008), strong leadership seems to be a critical success factor. The "preferences and style of the person in charge" will affect the type of projects undertaken and how the organization handles its relationship with its various constituents (p.316). However, the entrepreneur's vision can only be realized with the assistance of careful planning by

professional managers, which is why professional managers are now a part of most successful educational companies.

Most of the founders of educational companies are “self-trained entrepreneurs” (Huang, et al, 2007, p.171). A question then arises from interviews conducted for this research, which is: Can these entrepreneurs also act as professional managers? The behavior of the entrepreneur has a direct impact on how far a private company can travel.

The traditional concept of entrepreneurship includes activities such as: new business creation, purchase of existing business, new product development, creation of not-for-profit organizations, new project start-ups and business ownership (Gasse & Tremblay, 2007, p.248). In general, the demand-side perspective emphasizes the deterministic role of history, social and political environments, while the newer supply-side school, focuses on the individual traits and behaviors of an entrepreneur. According to Kirby (2007, p.37), there are different types of entrepreneurs, each with a different personality type and a set of attributes and behaviors, as see table 7-1. Psychological literature also suggests that entrepreneurs possess certain characteristics or traits, such as risk-taking ability, need for achievement, creativity, opportunism and a highly refined intuition, as well as autonomous control of the business.

Table 7-1 Entrepreneurship type, personality and attributes

<b>Entrepreneurship type</b>	<b>Personality type</b>	<b>Attributes</b>
Innovator	Imagination	Originality, inspiration, love, transformation
New designer/enabler	Intuition	Evolution, development, symbiosis, connection
Leader	Authority	Direction, responsibility, structure, control

New entrepreneur	Will	Achievement, opportunity, risk-taking, power
Animateur	Sociability	Informality, shared values, community, culture
Adventurer	Energy	Movement, work, health, activity

Source: Quoted after Lessem, R. (1986). Enterprise Development. Aldershot: Gower.

In general, a person who possesses a high degree of creativity and highly developed management skills and business know-how, along with well developed networks, is a true entrepreneur. Among the executives and managers interviewed for this thesis, there were many entrepreneurs who were highly creative but lacked business know-how; as well as many administrators who had highly developed management skills but lacked the capacity for innovation.

This raises the question: Are there guidelines for a managerial approach to entrepreneurship? Timmons and Spinelli (2004, p.250) conceptualize six themes of desirable attitudes and behaviors (see table 7-2), which can serve as guidelines and criteria for Chinese entrepreneurs.

Table 7-2 Six Themes of Desirable and Acquirable Attitudes and Behaviors

<b>Themes</b>	<b>Attitude or Behaviors</b>
<b>Commitment and Determination</b>	Tenacious and decisive, able to recommit/ commit quickly
	Intensely competitive in achieving goals
	Persistent in solving problems, disciplined
	Willing to undertake personal sacrifice
	immersed

<b>Leadership</b>	Self-starter; high standards but not perfectionist
	Team builder and hero maker; inspires others
	Treats others as you want to be treated
	Shares the wealth with all the people who helped created it
	Honest and reliable; builds trust; practices fairness
	Not a lone wolf
	Superior learner and teacher
	Patient and urgent
<b>Opportunity obsession</b>	Has intimate knowledge of customers Needs and wants
	Market driven
	Obsessed with value creation and enhancement
<b>Tolerance of risk, ambiguity, and uncertainty</b>	Calculated risk taker
	risk minimize
	risk sharer
	manages paradoxes and contradictions
	Tolerates uncertainty and lack of structure
	Tolerates stress and conflict
Able to resolve problems and integrate solutions	
<b>Creativity, self-reliance, and adaptability</b>	Nonconventional, open-minded, lateral thinker
	Restless with status quo
	Able to adapt and change; creative problem solver
	Quick learner
	No fear of failure
Able to conceptualize and “sweat details” (helicopter mind)	
<b>Motivation to excel</b>	Goal-and-results oriented; high but realistic goals
	Drive to achieve and grow

Low need for status and power
Interpersonally supporting (versus competitive)
Aware of weaknesses and strengths
Has perspective and sense of humor

In addition, a good entrepreneur needs to be able to deal with environmental pressures, which include an absence of predictable resources, both human and capital, the various organizational management tasks, as well as rapid changes in technology, consumer economics, social values and political dynamics (Levinson, 1989, pp.95-98; Sahlman, et al., 1999, p.11). In a nutshell, the successful entrepreneur must be able to recognize opportunities, which requires meaningful insight in a socio-economic sense; be able to actualize the formation of the business through various legitimating steps and the exploitation of opportunities, where leadership and various dynamic capabilities are required to exploit the opportunity successfully (Chell, 2008, p.263).

## Effective Quality Assurance Policy

Most Chinese “Edupreneur” businesses lack well developed quality assurance programs, for example, the research on course design is not systematic and consistent, which would impair the course success and the students' outcome (Kiel, 2008). Another example is that the widely employed Student End-of-Course Surveys are not well designed and consist solely of rating the instructors but fails to measure administrative and environmental support. Most surveys only offer an opportunity to critique other aspects of the program with an open ended “what is your comment” at the end of the instructor’s evaluation.

Even if students provide a comment on curriculum and institutional support

services, the full value of this additional information is seldom utilized or exploited. As matter of fact, properly collected and analyzed, open-ended comments from students and faculty have a lot of valuable information. University of Phoenix, on the contrary, sets a good example of how to capture this valuable data. Their empirically validated scales contain over thirty scaled questions and have a response rate of 85 to 90 per cent. The information from the student end-of-course surveys are analyzed daily and are reported to the faculty, area chairs and academic administrators in various regular and special reports (Sperling, 1997, p.101).

. The University of Phoenix continuously measures everything that might be important to the academic standards, practices and outcomes of the institution. In addition to the student end-of-course surveys, they also employ comprehensive evaluation and research tools, consisting of:

- Registration Survey<sup>93</sup>
- Evaluation of Student Learning<sup>94</sup>
- Peer and Administrative Reviews of Faculty Teaching<sup>95</sup>

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<sup>93</sup> This survey, completed during the registration process, asks students what factors influenced them to choose the University of Phoenix over alternative institutions, what major academic and professional goals they hope to achieve as they enroll in the University of Phoenix, what instructional methods are most effective in helping them to assimilate and retain knowledge, how they rate the overall effectiveness of the registration process and what their employers' opinions are of University of Phoenix programs.

<sup>94</sup> The University places the primary responsibility for evaluating students' learning with the instructor and supports each instructor with the information, training and consultation necessary to function effectively in his/her role in the quality management's feedback system. The curriculum for each course sets out specific learning objectives and student evaluation is based on the achievement of these objectives, that is, a criterion-referenced evaluation. Criterion-referenced evaluation means that all students who achieve the learning objective will pass the course. Likewise, if no student meets the course objectives, none will receive a passing grade. In principle, there need be no grades of "F" or "D" awarded. For that matter, no grades need be awarded at all. However, there are both psychological and practical reasons making it beneficial for them to receive grades. Grades are a traditional form of feedback and provide a needed affirmation of performance. Moreover, many employers require grades as "proof" of achievement for their tuition subvention plan.

<sup>95</sup> These are two kinds of observational evaluations of faculty teaching. One is a peer review for the purpose of determining needs for additional training or mentoring; the peer review is



- Student Comment Analysis<sup>96</sup>
- Faculty End-of-Course Surveys<sup>97</sup>
- The Student Representative System<sup>98</sup>
- Comments to the Chairman<sup>99</sup>  
 Graduation Survey<sup>100</sup>. (Sperling, 1997, pp.99-103)

strictly supportive, and no administrative action, other than arranging for training or mentoring, can come from the peer review process. The second kind is an administrative review, in which a member of the administrative staff visits the classroom for the purpose of determining if administrative action, including required training or dismissal, should be taken with respect to the faculty member.

<sup>96</sup> The University of Phoenix developed a computerized knowledge-base comment analysis system that processes and analyzes over 200000 student comments each year. The system produces a family of periodic reports. Included in this report system is a detailed end-of-course comment profile for each faculty member, a report analyzing elements of curriculum on a course-by-course basis, a highly aggregated administrative report on university services and a cumulative comment profile for faculty, area chairs and program specialists. This comment analysis system established itself as the earliest and most reliable source of information for operations and strategic planning.

<sup>97</sup> The university's requirement that faculty be qualified practitioners of the subjects they teach provides a valuable resource for assessing whether curriculum is up-to-date and technically sound. Faculty are also the University's best resource for determining whether students are professionally and academically prepared to benefit from their current educational experiences, and whether the learning environment and support services were as they needed to be. Similar to the student end-of-course survey, the scaled questions address curriculum and overall student preparation and the comments section adds salience, significance and fidelity to the respondent's intentions.

<sup>98</sup> To enable the university to have direct and personal feedback from the students, most learning groups elect a student representative who represents the group's interests with the faculty member, university administration and staff. Student representatives at each campus meet as a group with the university's administration.

<sup>99</sup> To provide a direct path to decision makers in the event that they have found other methods ineffective, each student and instructor in each course is provided with a postage-prepaid form which can be used to send confidential comments to the chairman of the board of the university; a similar form is sent each month with salary checks to all faculty and staff members. In addition, there is a comments hotline with an 800 number to a voice mail box. Students, faculty and staff send a regular stream of comments on problems, possibilities, suggestions for improvement, and praises for effective faculty and staff. Needed action is taken, and the person sending the comment is thanked and notified of the action.

<sup>100</sup> Graduates are asked to judge the quality of the university by rating the university's educational and support services, indicating the degree to which the graduates met educational and professional goals, the degree of effectiveness of the instructional methods in

## Shared Learning Organization

Learning as an activity is indispensable for an organization. Learning as a resource can also be leveraged by the organization. The paradigm of a learning organization is extensively used to "strategize" business response to fast-paced changes in the marketplace (Rajendra, 1996, p.125). A learning organization is characterized as an adaptive, agile, athletic social architecture capable of generating intellectual capital (Garrett, 1992). A learning organization responsive to rapidly changing market conditions and technology evolution involves an integration of key attributes of learning process. In the current turbulent business environment, the ability to learn and to generate new knowledge and skills is becoming an essential precondition for success, not only for competitive triumph, but also for company survival.

After research in human factors, cognitive psychology, and social psychology, Rajendra (1996) addresses influential factors about individual and learning processes, since learning is a self-centered, self-activated and self-motivated activity. These salient aspects of learning are feedback, principle of minimal effort, motivation, emotion, and environment. In a learning organization, business leaders need to become "learning managers" who provide conditions for and facilitate the process of self-development (pp.125-129).

It would be highly advantageous to Chinese "Edupreneurs" to adopt strategies that facilitate learning while experimenting with new ideas. This type of strategy depends on their creating a business structure which focuses on adaptability and flexibility, in which the joint efforts of multiple roles or departments provide a framework for a well functioning learning organization.

A learning climate needs to be created by which all managers promote and helping them to learn and retain knowledge, how the University of Phoenix education compares in quality to the traditional colleges and universities they attended, what effect their research project had at their place of work and their opinions of the university programs.

support the staff's experimentation in educational methods. Garvin (2000) points out that company can cultivate supportive learning environments by various means, for example, recognizing and accepting differences in educational styles, providing timely feedback, stimulating new ideas and tolerating errors and mistakes (pp.34-41). On the other hand, those barriers exemplified in Table 7-3 (Garvin, 2000, p.42), need to be overcome in order to consciously create stimulating educational environments. Therefore, internal communication channels should be set up in order to stimulate the creativity of the organization.

There are multiple constituent communities in educational environments, such as the communities constituted by students, teachers and administrators. Moos and Huber (2007) apply the concept of community and the notion of shared leadership to the school as a community, the senior management team as a community, teacher teams as communities and classrooms and other student-teacher groups as communities. They argue, all communities need to develop a sense of ethos, membership, direction, power sharing and trust building, as well as distributed and participatory-democratic leadership and all can profit from viewing at leadership as communication within and between communities (p.588).

Shared leadership in communities is leadership in which power over events and people is redefined as the power to accomplish shared goals (Wenger, 1999, p.170). In order to share leadership within the group, it is imperative to create a smooth internal communication channel. Luczak and Seiwert (1996) subdivide internal communication into two parts: formal and informal communication. The formal flow of information is always guided by the organizations guidelines, such as: the chain of command, working-place descriptions, duty rosters and procedural plans; while informal communication happens during casual meetings (p.102).

Power-sharing and vested ownership among the staff is good way to reduce the negative effects of an overly obsessive, task-orientated

organization. According to Manktelow, Brodbeck, and Anand (2006), ownership invitation consists of management methods such as “involve them in strategy,” “invite inputs,” “create communication channels,” “find feedback,” “be attentive,” and “construct a collective vision,” and power-sharing encompasses “share information” and “grant autonomy” (p.143).

According to the author, sharing the leadership needs to

- Pay attention to the affection factors.
- Make work enjoyable for followers
- Treat people with equal respect
- Consult with followers
- Take others' contributions into account during decision
- Show more tolerance when challenge followers to perform their best
- Learn to compromise and reconcile

Table 7-3 Learning Barriers and Facilitators

<b>Stage of Learning</b>	<b>Barriers to Learning</b>	<b>Facilitators of Learning</b>	<b>Tools and Techniques</b>
<b>Acquiring</b>	<ul style="list-style-type: none"> <li>● Reliance on a few, traditional data sources</li> <li>● Difficulty Separating signals from noise</li> <li>● Biased, filtered data collection</li> <li>● Limited pooling of available information</li> </ul>	<ul style="list-style-type: none"> <li>● A broad base of contributors and data sources</li> <li>● A process for sharing diverse perspectives and points of view</li> <li>● A willingness to embrace contradictory, unexpected findings</li> </ul>	<ul style="list-style-type: none"> <li>● Forums for brainstorming, generating new ideas, and stimulating creative thinking</li> <li>● Regular benchmarking an peer comparisons</li> <li>● Quick feedback and market intelligence</li> </ul>
<b>Interpreting</b>	<ul style="list-style-type: none"> <li>● Biased, incorrect estimates</li> <li>● Improper attribution of cause and effect</li> <li>● Overconfidence in judgment</li> </ul>	<ul style="list-style-type: none"> <li>● A process of conflict and debate that tests prevailing views</li> <li>● The provision of timely, accurate feedback</li> </ul>	<ul style="list-style-type: none"> <li>● Probing, challenging review sessions</li> <li>● Dialectical inquiry, devil's advocacy processes</li> <li>● Audit teams</li> </ul>

**Applying**

- Unwillingness to change behaviour
- Lack of time to practice new skills
- Fear of failure
- Incentives that encourage new approaches
- The creation of space for learning
- A sense of psychological safety
- Linking promotion, pay and status to the development of new ideas and skills
- Eliminating unnecessary, obsolete work when new tasks are added
- Acceptance of mistakes due to systems problems, unanticipated events, or inexperience
- Partial immunity when reporting errors

## 7.2 Cooperation Prospect between China and Germany

Educational exchanges are considered one of the strongest ties between the United States and China in the twentieth century, despite the sharp differences in their cultural, political and economic systems. Originating as part of American missionary enterprise in China, educational exchange between the two nations dramatically expanded, beginning around 1900 (Li, 2008, p.1). According to US State Department statistics, the number of Chinese students in the United States reached from 12,711 in 1986 to 44,000 in 1993/94, climbed to 54,466 in 1999/2000, and passed 60,000 in 2001/02 (ibid. p.203).

Germany is also a traditional destination for higher education among Chinese students. With nearly 12 per cent of Germany's foreign student population, China ranks undisputed number one in countries of origin (Isserstedt & Schnitzer, 2005, p.20). Chinese students study in Germany for a variety of reasons: the high-quality of study conditions and infrastructure available at German institutions, to improve language skills, to acquire specialist knowledge, to experience different methods of instruction and to pursue a foreign degree. However, the number of Chinese students in Germany is significantly lower than in the United States.

Also, Chinese educational institutions desire to cooperate with their international counterparts, mainly because of their admiration for foreign curriculum, instructional strategies, high profile professionals and the first-rate educational resources of foreign educational institutions. However, it is clear that the educational exchange between China and Germany is still too small.

Education in both China and Germany is undergoing a transition from centralized planning to a more competitive, dynamic and de-centralized system. This new approach which combines the courses of study offered with the demands of students is conceived of as a win-win strategy by all concerned.

## Cooperation Prospects

According to Tippelt (2008), international cooperation in education is of significance in the global structured politics (p.268). The General Agreement on Trade in Services (GATS) is a treaty of the World Trade Organization (WTO) that entered into force in January 1995 as a result of the Uruguay Round negotiations. According to Article 2 of the agreement, the GATS agreement covers four modes of supply for the delivery of services in cross-border trade:

Mode 1: Cross-border trade: Supply of a service from the territory of one Member into that of another Member, i.e. supplier and consumer interact across distance.

Mode 2: Consumption abroad: Consumption of a service by consumers of one Member who have moved into the territory of the supplying Member.

Mode 3: Commercial presence: Services are provided by foreign suppliers that are commercially established in the territory of another Member.

Mode 4: Presence of natural persons: Services are supplied by foreign natural persons, either employed or self-employed, who currently stay in the territory of another Member.

These modes can be understood as mobility in terms of program, student, institution, and academic respectively. Consequently, cooperation can take various forms:

- Initiative of distance education.
- Entailing multiple channels of overseas studying.
- Campus overseas.
- Academics invitations: German academics travel temporarily to China.

In the case of cooperation between Germany and China, the author propose following prospects:



## Prospect 1: International Higher Education Marketing

Through international higher education marketing, German universities will create more channels for overseas study and attract more Chinese applicants.

“Open access, and equal opportunities” have been a tradition of German higher education (Kehr & Pasternack, 2008, p.114), best demonstrated in two characteristics: no fees and no distinct treatment among the tertiary higher education institutions (TEI for short).

The introduction of tuition from the winter semester 2006/07 altered the first characteristic and the adoption of the Initiative for Excellence in June 2004 altered the second. From then on, German TEIs must compete with each other for funding and reputation in three categories: graduate schools, enters or clusters of excellence with international reputations, and whole institutions aiming to become elite universities (Bulmahn, 2007).

According to the Initiative for Excellence, 40 selected elite graduate schools receive about one million extra Euros respectively per year; some 30 centers or clusters of excellence receive approximately eight million additional Euros respectively each year; and ten elite universities selected receive respectively 25 million Euros additional funding annually (ibid.).

HRK holds that the presence of foreign students in Germany benefits German students, the hosting institution, and the Federal Republic of Germany as a whole, when considering the policy interests with respect to cultural affairs, as well as development of the economy (HRK, 1996, p.11).

The University Consortium GATE-Germany, established on the joint initiative of the Deutscher Akademischer Austauschdienst (DAAD for short) and the HRK, enables German universities and research institutions to position and promote their study and research programs and services in the international market. In this work, the GATE Office cooperates closely with the Sekretariat der Konzertierten Aktion (Secretariat of the Joint Initiative). Both

offices are located within the “International Marketing for the Promotion of Study, Research and Training in Germany” unit at the DAAD.

## Prospect 2: Campus Overseas

Under the efforts to promote bilateral and multilateral education cooperation and exchanges, Chinese government has already established educational cooperation and exchanges with over 170 countries and districts all over the world.

Thus, trans-collegial cooperation and exchanges are promoted. For example, Peking University set up trans-collegial cooperation and exchanges with more than 200 universities and research centers across 49 countries and regions.

Additionally, recognition of certificates, diploma and degrees with countries like Germany is also facilitated. Other multilateral cooperation includes participation and support for international organizations like UNESCO<sup>101</sup>, UNDP<sup>102</sup>, UNPF<sup>103</sup>, UNICEF<sup>104</sup>, and regional organizations like ASEM<sup>105</sup>, APEC<sup>106</sup>, OECD<sup>107</sup>, ADB<sup>108</sup>, and FISU<sup>109</sup>, etc (OECD, 2007, p.78).

## Prospect 3: Public-Private-Partnership

According to “Regulations on Chinese-Foreign Cooperation in Running Schools”, the Chinese government encourages all levels of cooperation

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<sup>101</sup> UNESCO: United Nations Educational, Scientific and Cultural Organization.

<sup>102</sup> UNDP: the United Nations Development Program.

<sup>103</sup> UNPF: the United Nations Population Fund.

<sup>104</sup> UNICEF: the United Nations Children’s Fund.

<sup>105</sup> ASEM: Europe-Asia Meeting.

<sup>106</sup> APEC: Asia-Pacific Economic Cooperation.

<sup>107</sup> OECD: Organization for Economic Co-operation and Development.

<sup>108</sup> ADB: the Asian Development Bank.

<sup>109</sup> FISU: the International University Sports Federation.

between domestic educational institutions and foreign counterparts. There are now independently-established TEIs and non-independently-established TEIs consisting of second-tier colleges and cooperative programs with public TEIs (OECD, 2007, p.64).

The final say of the school system in basically all countries remains with the nation-state. But beneath this state responsibility and supervision, both the administration and the funding of schools may result in differing shares of public and private involvement.

Wößmann (2006) analyzes the efficacy of the four types of Public-Private-Partnership: private operation with public funding, public operation with private funding, substantial private operation and funding, and purely public operation and funding. He finds out that across countries, public operation of schools is negatively associated with school performance in math, reading and science, while public funding of schools is positively associated with student performance in the three subjects. This main result suggests that school systems based on PPPs, in the sense that the state finances schools, but contracts their operation out to the private sector are the most effective school systems. By contrast, school systems based on PPPs, in the sense that they require a lot of private funding, but keep the operation of the schools in the public sector, fare even worse than systems where operation and funding is either both public or both private. Thus, the results favor the particular form of educational PPPs where the state does the funding and the private sector runs the schools (pp.19-20).

#### Prospect 4: Vocational Education Projects

The qualification of the German workforce is considered to be one of the most important determinants of German advantage. Germany is one of the top countries of the European Union in workforce education, with 80 per cent of

the workforce holding either a vocational or a university diploma. At the same time, Germany is one of the OECD countries with the lowest relative supply of college educated workers (Hartmut, 1997, p.196).

This national peculiarity of educational disparity has much to do with the extent to which vocational education is integrated into a unified system which is under State supervision. Germany gives vocational education a central place in its dual system, managed jointly by the social partners (Beduwe & Planas, 2003, p.141).

One of the unique features of German dual system is the social partnership between businesses and unions. In Germany, unions have a strong influence on policy and it is difficult to lay off workers and Germany work councils can directly influence the firm's strategy at the micro level, which includes the training of young workers. Both businesses and unions share equal decision-making responsibility regarding the regulations which guide the implementation and evolution of the apprenticeship system. BIBB (Bundesinstitute für Berufsbildung)—the Federal Institute for Vocational Training plays a role of mediation between business and government (Bundesministerium für Bildung und Wissenschaft, 1992).

Stenström & Lasonen (2000) summarize strategies for improving upper secondary vocational education:

- Improving links with higher education
- Improving links with employers
- Raising the status and qualifications of vocational teachers and trainers
- Improving the vocational education and training curriculum.

(p.6)

The author believes, by introducing German vocational education projects into China, training curriculum of certain trades could be improved. By inviting experts, the level and qualification of Chinese vocational education projects could greatly improved and Germany could benefit economically.

This situation represents the greatest educational opportunity for Chinese/German cooperation. China and Chinese Edtrepreneurs could greatly benefit from German vocational education. The lack of well trained Chinese "trades" people (plumbers, electricians, welders etc.) is the greatest stumbling block to China's further modernization and development. The Germans do this kind of thing better than anyone in the world. Importing their vocational education systems and expertise is a tremendous opportunity for Germany & China.

In fact, China suffers from the reverse of the German situation, where in China there are plenty of highly educated people but a lack of well trained "trades" people. This is the biggest of the educational opportunities for both countries.

## CHAPTER 8

### CONCLUSION

The first hypothesis of this study assumes that China has responded to the for-profit surge actively, resulting in various types of “Edupreneurs” operating in the Chinese education and training market. Private, for-profit education companies in China providing desirable and affordable educational products and services hatched a flourishing education and training industry. Is it possible to classify “Edupreneurs” operating in the Chinese education and training market? (Research Question 1) The answer is yes and the author developed a tentative 4×3 model for classifying "Edupreneurs" operating in the Chinese education and training market, covering four dimensions (Training Objective; Target Group; Instructional Approach; and Size in Employment), with three variables each. This 4×3 model serves as an instrument to get a quick comprehension of any "Edupreneur" in China (see chapter 5.2).

Research Question 2 is : What is the cause of the surge in the education market? The author asserts that the emergence and growth of for-profit education worldwide can be attributed to a series of historical forces or momentums, involving increased internationalization in the higher education area and the emergence of cross-border higher education (also called borderless, transnational higher education), globalization and global attraction and borrowing education policies, emergent governmental devolution, vis-à-vis privatization of its historical functions, commercial influences on school reforms as well as a globalizing knowledge economy with requirements for a highly skilled work force, thereby urging a life-long education and learning approach (see chapter 3.3). China is keeping abreast of the times in this regard.

What has been influencing the operation of "Edupreneurs" in China

specifically? (Research Question 2) The author attributes the operation of "Edupreneurs" in China to 4 factors:

- , macro economic background
- political or managerial impact,
- legal environment
- structural changes in education (see chapter 5.5).

The second hypothesis involves providing an analysis and explanation of the for-profit sector in China. It is assumed that New Institutionalism has impacts on Chinese for-profits' mission statements, curriculum, students, faculty and the like area. But how would New Institutionalism account for the for-profit phenomenon? (Research Question 3) The contending analytical approaches known as New Institutionalism has three major schools of thought: Historical Institutionalism, Rational Choice Institutionalism, and Sociological Institutionalism, which share similar views on the role institutions play in the determination of social outcomes (Hall & Taylor, 1996; Thelen, 1999; Thelen, 2002). The author applied each one of them to explain their influences on Chinese for-profit education (see chapter 6).

The third hypothesis assumes that it is possible to match demand and need from both Chinese and German sides and offer education products and service through cooperation. The author proposes cooperation prospects to extend the research on pattern and channel as constructs into operational cooperation plans. So, responding the Research Question 4, it is possible to cooperate in providing education products and services between China and Germany. However, are these education products and services of high-quality, or are they affordable and profitable? This requires case-by-case analysis. The author does contend that education entrepreneurship is the key, and successful entrepreneurship comprises visionary entrepreneur, effective quality assurance policy and shared learning organization.

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