

# The Impact of Chinese "Double Reduction" Policy on Listed Educational Tutoring Institutions Taking New Oriental Study Group as an Example

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## ABSTRACT

Nowadays, Chinese students are under tremendous pressure to study. Chinese government published a new policy called Double Reduction Policy in order to solve this problem. Double Reduction means reducing the heavy homework burden and after-school training burden of students in the stage of compulsory education. This paper introduces what is Double Reduction policy, and analyzes the advantages and disadvantages of this policy, which demonstrates that the Double Reduction policy has a generally negative impact on New Oriental in three aspects. Firstly, K9 business is prohibited by the Double Reduction policy, and the businesses of high school students and preschool children are also negatively impacted by this policy. Secondly, the policy causes a decline in stock share price. Thirdly, the policy leads to the teacher's resignations. The study puts forward three solutions on the issue of the policy's negative impact on businesses.

**Keywords:** *Extra-curricular classes, Double Reduction policy, New oriental, Extra-curricular classes, Compulsory education*

## 1. INTRODUCTION

Since the 1990s, in China, millions of students have been taking extra-curricular classes to improve their grades, which not only increases their study pressure but likewise increases economic pressure on their parents. Thus, to address this issue, the Chinese government proposed a policy called "Double Reduction." While relieving the students' study pressure, this policy also has several negative issues for educational companies, such as the unemployment of teachers and corporate downsizing.

This article has one main purpose and two secondary purposes. The paper mainly focuses on the negative effect on New Oriental caused by the Double Reduction policy. They are K9 business is prohibited, a decline in stock share price and the teacher's resignations. This paper also introduces what is Double Reduction Policy and analyzes its advantages and disadvantages. Thirdly, this paper proposes three solutions to reduce the loss of New Oriental caused by the Double Reduction policy. They are having more extra-curricular classes for college students, still focusing on students who are planning to go abroad and undertaking after-school classes for public schools.

Deng and Xue studied the relationship between the families' economic pressure and the children's education by having empirical research. They concluded that government should provide more adequate financial support for compulsory education, effectively strengthening the funding system for compulsory education and narrowing the gap between schools for parents to reduce their costs for education [1]. Using the example of New Oriental, Fu and Shi systemically introduced what the flight of capital from the listed company is and what strategies they employ to transfer their possessions to foreign countries. They proposed whether or not should Chinese government monitor the phenomenon and exhibited the different treatments to national-owned and private companies [2]. Li investigated English extra-curricular classes in 4 parts by analyzing data that were already existed. Reasons for the popularity of our school English classes, the advantages of English tutoring classes, the disadvantages of English tutoring classes, as well as the enlightenment of English tutoring classes to school English Teaching. The author suggested several solutions for improving the quality of public schools' English education [3].

Liu and Han studied the differences between educational perspectives of middle families in the USA

and China. They concluded that China should eliminate the gap of education along with higher GDP and productivity by evaluating different social hierarchies structures, different family educational views, and divergences of educational purposes and culture between the USA and China [4]. Song and Xue discussed the correlation between extra-curricular tutoring and students' grades based on the pisa2012 Shanghai data. They pointed out that tutoring time has a significant positive effect on students' academic performance and that impoverished students have a greater improvement in academic performance after taking extra-curricular classes, and these classes will cause social injustice. They finally suggested that the government should provide subsidies to impoverished students to ensure the fairness of education [5]. Sun and Bian studied extra-curricular classes. They introduced the definition, the effect on students' grades, the issues and characteristics of extra-curricular classes through the examples of several students. They suggested that the extra-curricular classes should be evaluated regularly, clearly and they should optimize their context of courses and improve their standard for hiring new teachers [6].

Hu argued that there are numerous issues of extra-curricular classes, citing many examples to strengthen his idea. They can be divided into several main problems, first is that the qualities of different extra-curricular classes are different, the second is that the barrier to entry into this industry is very low, and the market monitor is insufficient to make sure all the companies obey the rule to earn money. He presented several solutions, made new policies, and stated that the government department should clarify their responsibility, increase the barrier for entering this industry as well as establish a system of teaching service quality [7]. Long illustrated students' studying pressure and proposed several solutions to this problem through the comparison of the real estate market example. The first disadvantage of studying pressure is that it will reduce the creativity of a student, the second is that it decreases the quality of family life, the third is it lowers the teachers' teaching ability, and the fourth is students getting knowledge mainly from homework instead of classes. For this problem, the author suggests that parents and governments should cooperate to decrease students' pressure, and the government should change the influence of education on the resource market [8].

Zheng and Dai determined the reasons for some Chinese students to choose to study abroad (in the U.K.) by conducting a statistical survey experiment and finally concluded that the main reasons for this are the high quality of courses offered in foreign universities, the possibilities of studying abroad and in better universities, the opportunities to improve English level, shorter studying year to get a master degree in contrast to China, improving social skills and experiencing western culture [9]. Huang investigated why it is difficult for recently

graduated college students to find work by examining factors in university education that contribute to the problem. The government factors, school factors, and students' factors caused this problem. The author believed that as long as the government allocates resources appropriately, as long as the students can focus on a specific subject and make it proficient. The problem of recently graduated students finding it difficult to find work will be addressed [10].

## **2. THE INTRODUCTION OF THE DOUBLE REDUCTION POLICY**

### ***2.1 Policy description***

"Opinions on Further Reducing the Burden of Homework and Off-Campus Training for Students in Compulsory Education" is also called the Double Reduction policy. Double Reduction policy is a Chinese policy that eases the burden of excessive homework and extra-curricular classes for Chinese students undergoing compulsory (students who have primary and junior high school education) education. The policy is aimed at primary school students, junior high school students, and some kindergarten kids. It can be roughly divided into the following sections. Firstly, the school should reduce the total amount of homework as well as increase its quality. To be specific, no homework for students in grades one and two, for rest of the primary school students, the average time spent completing the homework should be less than 60 minutes, and ensure that the average time for junior middle school students to complete their homework is no more than 90 minutes. Teachers should likewise enhance the quality of homework, and the assignment should not be repeated or used to punish students. Secondly, the quality of after-school services should also be improved. To be specific, the school should let students study after school at school until their parents return home from work. School should also encourage students to do housework and exercises after school. Thirdly, making stricter rules to the extra-curricular classes. The new additional tutoring institutions for compulsory education are not approved by the government. Extra tutoring institutions shall not be listed for financing. Capitalization is strictly prohibited for tutorial institutions that assist students in tutoring the subjects of compulsory education. The end time of tutoring should not be later than 21:00, and the online training institutions shall not provide bad learning methods such as providing practice books' answers that influence students' independent thinking. Fourth, to ensure educational fairness, vigorously improve the quality of school education. They are narrowing the gap of educational quality between urban and rural areas, as well as between different schools. Schools should improve the quality of classes and guarantee the after-school service conditions of the school.

**2.2 The advantages of Double Reduction policy**

First of all, the Double Reduction policy is good for parents since it allows them to save the high fees for their kids to have extra-curricular classes. According to the report "Chinese children's development report (2019)", on average, Chinese children aged 3-15 spend 3.2 hours in extra-curricular classes on weekends. Extra-curricular classes cost an average of 9211 yuan per child per year that is 12.84% of the disposable family income. Thus, since the tutorial classes in compulsory education were banned, families can save a large amount of money for the kids to go to the extra-curricular classes. Even though the financial burden on parents has not decreased much after students go to high school and college, every student can save an average of 90000 yuan during the stage of compulsory education. Moreover, the Double Reduction policy allows parents to focus on their works. Primary and junior high schools have to increase after-school services following the implementation of the Double Reduction policy. Before the implementation of the policy, students who do not attend extra-curricular classes will be out of school alone for hours, and many parents feel worried and unable to fully focus on their job, particularly the parents of primary school students. However, now students are not permitted to leave school until their parents get off their work. In addition, in China, 36.7% of students have extra-curricular classes, and in cities, the proportion to have tutoring classes is as high as 70% in 2014 (probably more in 2021). As a result of the new policy's implementation, parents no longer have to worry about their children's safety and whether they will play outside while they are working, allowing them to focus more on their work. It is a fact that several students in primary and junior high schools have to be picked up by their parents to go to extra-curricular classes. Similarly, thanks to the implementation of the new policy, parents can save time to pick their children to have extra-curricular classes so that parents can focus more on their work.

Secondly, the Double Reduction policy is also good for students. Students can have more free time to do their things, providing a lot of advantages, such as building up body strength, protecting eye health[11], spending more time with families, self-studying, trying more things they are interested in, as well as having more sleep time to ensure learning efficiency in tomorrow. As previously mentioned, in China, 36.7% of students have extra-curricular classes, and in cities, the proportion to have tutoring classes is as high as 70% in 2014. It is a common fact that if students have more classes, they will have less free time to pursue their things. According to PISA[5], on average, Chinese students spend 21.4 hours per week in tutorial classes. This implies that for 36.4% of Chinese children and 70% of urban children who have extra-curricular classes, they can spend an extra day every week doing things such as building up body strength, etc.

Thirdly, the Double Reduction policy can make education more equitable [12]. Good public schools are changing their way of enrolling students. They will use simple random sampling to enroll students instead of the school district. Thus, the value of school district houses decreased. This measure is fairer to children whose parents have no money to buy school district houses. Secondly, teachers will work for different schools to improve educational fairness because all students have the opportunity to access good teachers to teach them.

**2.3 The disadvantages of the Double Reduction policy**

One important reason why the government put forward the Double Reduction policy is to prohibit the capitalization of education. Even though capitalization caused many problems, it contributed to the increase of national GDP. The Double Reduction policy banned the capitalization of education, and this will lead to the decline of GDP contributed by the educational industry. In addition, the Double Reduction policy resulted in millions of teachers losing their jobs [14] and millions of undergraduate students being unable to find their jobs. The policy prohibited the establishment of new tutoring institutions, as well as extra-curricular classes that learn primary and junior high school contexts, and several educational companies went bankrupt. These things caused the reduced demand for teachers, which, in turn, increased unemployment, causing a slew of social problems, such as reducing the production of a country, loss of human capital, and an increase in government's subsidies for teachers who lose their jobs and the undergraduates who cannot find their jobs.

Double Reduction is not good for students who have extra-curricular classes. From table1, as can be seen, that extra-curricular classes have a positive effect on students' grades. 88.5% of students improved their grades after having the tutoring classes. Therefore, if the extra-curricular classes that study in-school the context are forbidden, the students will generally have a lower average score on the test.

**Table 1** Students' academic performance has been improved by attending tutoring classes [13]

	Freq uenc y	Perce ntag e	Effective percentag e	Cumulative percentage
no effect	53	11.5	11.8	11.8
0-15 points	256	57.1	57.1	69
15-30 points	97	21.7	21.7	90.6

more than 30 points	42	9.4	9.4	100
Total	448	100	100.0	

Double Reduction policy has had a significant impact on educational companies that focus on extra tutoring classes. Because of the prohibition of capitalization, the prohibition of curriculum-based off-campus tutoring courses as well as the prohibition of intervention of foreign capital, the market value of educational study groups declined sharply. Many small institutions went bankrupt. The market value of large educational companies decreased dramatically. Take New Oriental and TAL as examples as they are the largest educational companies in China. Tomorrow Advancing Life's stock shares (6 dollars) closed down 93.4% on 24 July (the date that the policy was published) in contrast to the stock share price in February (90.96 dollars), and the market value decreased 54.8 billion dollars. New Oriental's stock shares (2.45 dollars) closed down 87.74% on 24 July, and the market value decreased by 35.9 billion dollars. Hence, the new policy is very unkind to educational companies that have extra-curricular classes.

Although the policy has partly worked, it is useless to certain parents who are very rich or who are worried about their children's academic performances.

Following are the reactions of city parents to the cancellation of the extra-curricular class. Based on the image, not many students do not attend extra-curricular classes. The total demand for extra-curricular classes does not decrease since students still require teachers to teach them to improve their grades. Students want to improve their grades, and the companies might want to earn more money, so they might still have some extra-curricular classes. Consequently, the actual effect of the policy might not be as good as what people expected before.

### **3. THE IMPACT OF DOUBLE REDUCTION POLICY ON NEW ORIENTAL**

Double Reduction policy hurts New Oriental in three aspects. First, New Oriental's businesses have suffered greatly because of the Double Reduction policy. Secondly, the stock price and financial affairs are badly affected by the new policy. Thirdly, the unemployment rate of teachers has increased due to this policy.

#### **3.1 Businesses**

Double Reduction policy has an huge impact on the business structure along with the financial affairs of the New Oriental Study Group.

Double Reduction policy affects the New Oriental study group a lot, which can be noticed that POP kids' education will no longer be profitable for New Oriental because of the Double Reduction policy. POP kids' education provides education services for children aged from 4 to 14 years. The policy prohibited all curriculum-based off-campus tutoring courses for children at this age. Thus, POP kids' education cannot earn revenue because it is no longer allowed to open extra-curricular classes to earn money.

The business of U-CAN secondary school education is badly affected by the Double Reduction policy. For students aged 13 to 18, U-CAN secondary school education holds curriculum-based off-campus tutoring classes. The students who study in senior high school are unaffected. However, students who study in junior high school are forbidden to take curriculum-based off-campus tutoring classes. Thus, U-CAN secondary school education's revenue will decrease significantly since the Double Reduction policy prohibited the company from running all the classes for junior high school students, which provides approximately 50 percent of the revenue.

The total revenue of New Oriental is forecast to decline by twenty-five percent in 2022 and by forty-eight percent in 2023 following the introduction of the policy, which shows that the services for students studying abroad are going to be the largest source of revenue for New Oriental. In contrast to other forms of classes, the test preparation classes provide the majority of the revenue of New Oriental.

#### **3.2 The impact of stock price**

The data from Yahoo Finance demonstrates that the value of stock shares of new oriental are greatly impacted by the policy. Double Reduction policy was published on 24 July 2021, and the price of its stock shares decreased significantly, as depicted by the previous graphs. As revealed by the statistics, after the announcement of the Double Reduction policy in August, New Oriental's share price fell by over 80 percentage points, and its market value shrank by H.K. \$230 billion.

#### **3.3 Impact on employees of New Oriental**

The Double Reduction policy hurts employees who work for New Oriental [15]. First of all, for the teachers who teach classes from kindergarten through high school, the Double Reduction policy causes two consequences for those teachers. First, numerous teachers leave the New Oriental themselves because they cannot stand the significant reduction in their income and many teachers have to accept the fact that their income has dropped innocently. Because of the new policy, the number of classes they teach has fallen by 80%-90%. The teachers in the company do not have a basic salary. Instead, they make money from the commission they receive for

teaching classes. Thus, limiting the number of classes means less income for teachers, and the significant reduction of income causes the two consequences for teachers teaching classes in New Oriental.

Secondly, for the other employees who work for New Oriental, the Double Reduction policy also causes passive departures or layoffs. Employees such as salespeople, project managers, and learning consultants, for example, do not simply give classes. They have a basic salary and commission. However, the company sets the goals to achieve. They can only get a low base salary if they cannot realize goals. After the "Double Reduction" policy, New Oriental laid off some staff and set higher goals for them. If the staff cannot meet the objective, they cannot get their commission, which also leads much staff quitting their jobs on their own.

As a result, many teachers and employees will quit their jobs in New Oriental. It does save money for New Oriental, facilitates the management of New Oriental, and allows for the dismissal of some incompetent personnel. However, many good teachers and college graduates have lost their jobs. It also leads to the unemployment of several excellent teachers and college graduates. Besides, this situation affects the number of students taking classes due to the departure of teachers. However, the main factor affecting the number of students is the Double Reduction policy. Thus the resignation of teachers is not a bad outcome for New Oriental, however, it causes bad consequences for teachers and graduates who are unable to find new employment and for the whole society because it causes the increase of unemployed and dismissed workers.

## **4. NEW ORIENTAL'S SOLUTION**

### ***4.1 Having extra-curricular classes for high school and college students***

Double Reduction policy only banned the extra-curricular classes for the students who are in compulsory education (primary school and junior high school). It still allows companies to hold extra-curricular classes for high school and college students, and new oriental should put more emphasis on extra-curricular classes for high school and college students. In the new market, there is a huge demand for education. In China, there are 20 million college students and 30 million high students. Because the courses are very difficult, plenty of students cannot fully grasp the knowledge, and they need extra-curricular classes to assist them in learning more effectively. It is a good suggestion for a new oriental study group to properly attract college and high school students to have their extra-curricular classes because the company can also earn lots of money and there is a huge demand for education in the market, in particular, the new oriental study group has a lot of experiences on college students' educating and high school students' educating. My

proposal, nevertheless, has some flaws. Firstly, many college students do not want to take extra-curricular classes because of their family conditions. Many students work after school rather than take more classes, which means that there may be fewer students willing to pay (whether time or money) for the extra-curricular classes, and causes the decreased demand for these classes. Secondly, because of the Double Reduction policy, many educational companies also seek to penetrate this industry, and that causes the increase of supply. According to the law of supply, it will result in the fall of a market price and earn fewer benefits from this industry.

### ***4.2 Focusing on students who are going to study abroad and preparing good training for the students to help them get better academic performances***

The New Oriental study group should continue to put lots of effort into extra-curricular classes toward students who are going abroad, such as TOEFL, IELTS, and SAT. The government did not forbid students to study abroad. Now, the new oriental study group is the largest and most educational institution for students to study abroad. In China, no other companies can compete well with New Oriental, and none of their businesses pose threats to New Oriental. To preserve the group's basic income and strive to generate more money, the New oriental study group should add new students who wish to study abroad to their number of students. In this way, the new oriental can ensure that it will not go bankrupt and have enough cash flow to overcome these difficulties brought by the Double Reduction policy.

### ***4.3 Corporation with school, host the after school program***

New oriental study groups should incorporate with public schools to solve the reduction of demand for extra-curricular classes caused by the policy (prohibit students from going to the extra-curricular classes). In the policy, the ninth provision specifies that schools should have classes until students' parents get off work. This denotes that schools need many teachers to supervise and guide students while they study. Following the publication of the new policy, there are not as many students to go to the extra-curricular classes as before. Nevertheless, New Oriental Group can host after-school tutoring programs for schools and the schools. For instance, a public school contributed 100 thousand dollars to invite New Oriental to host the after-school classes in that school. New Oriental can let three teachers teach classes in public schools. The public school affords the cost of the site, and New Oriental can earn money through the undertaking fund provided by the public school and utilize that money to pay the wages of three teachers. As a result, not only the New Oriental can earn more revenue, but also teachers can have more income.

## 5. CONCLUSION

In conclusion, this paper introduces what is Double Reduction policy is and analyzes its advantages and disadvantages. Double Reduction policy is a policy that eases the burden of excessive homework and extra-curricular classes for Chinese students undergoing compulsory education. Double Reduction can save money for parents, let students have more free time and promote the educational equality. It also has negative impacts on national GDP, extra tutoring institutions and students who have tutoring classes. This article also discusses the impact of this policy on New Oriental, including the downsizing of businesses, the decrease of share price, and the resignation of employees. Finally, the article puts forward three solutions on how to solve the issue of business changes brought on by policy. The solutions are having more extra-curricular classes for college students, still focusing on students who are planning to go abroad and undertaking after-school classes for public schools. People can have a clear understanding of what the Double Reduction policy is, this policy's impact on New Oriental company and can know the reasons whether New Oriental will make these responses to mitigate the impact of Double Reduction policy.

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