

# The Response of Chinese Private Education Organizations to the “Double Reduction” Policy: Evidence from New Oriental and TAL

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## ABSTRACT

Since the Chinese state government enacted the “double reduction” policy, a policy to alleviate the burden of after-school tutoring for students, there have been many private educational organizations encountering challenges. This policy has caused a radical change to the status and role of private education organizations in the education sector, which leads to a major crisis faced by them. In this context, how the private educational organizations cope with such a crisis becomes a critical problem. On this basis, an analysis will be carried out in this paper of the measures taken by two Chinese listed private education enterprises, New Oriental Education & Technology Group (New Oriental) and Tomorrow Advancing Life Education Group (TAL). Besides, the logic behind the effectiveness of these measures will be examined to provide other enterprises with guidance on the practice of crisis management. The most interesting finding is that both New Oriental and TAL have a strong dynamic capability, which helps them respond effectively to the crisis. The results of this study shed light on crisis management in modern enterprises.

**Keywords:** *Crisis management; Private education organization; New Oriental; TAL*

## 1. INTRODUCTION

The role of corporations in the education industry has always been controversial. Back in the 1990s, to address the insufficiency of domestic demand in China, Min Tang, Chief Economist of the Asian Development Bank PRC Resident Mission, proposed to increase domestic demand by industrializing education [1]. Subsequently, private educational organizations started to emerge across the education industry, e.g., New Oriental, TAL and OFFCN Education Tech.

However, the side effects of this move have increasingly manifested since the 2000s. It was found out by some scholars that the educational resource has been monopolized and made less affordable [2]. This is because these private educational organizations would invest heavily in the recruitment of excellent teachers from all over the country. Thus, students, as well as their parents, were forced into paying a high price for high-quality tutoring and better grades, which led to a heavy financial burden.

In response, the Chinese government published a new policy known as “double reduction”, with the aim to

reduce the burden placed on students with regard to homework and extra-curriculum training. From a macro perspective, it is definitely conducive to promoting a sense of well-being among residents. In practice, however, there are many private educational organizations struggling to survive.

In response to this dramatic change, different corporations implement different solutions., which will offer some guidelines for the industry that will face any similar experience related to crisis management. There have been few investigations so far. Therefore, it is worthwhile to investigate the response of private educational organizations to the new policy of “double reduction” and to summarise some experience in order to shed light on the ensuing Chinese private education development.

## 2. CASE STUDY OF NEW ORIENTAL AND TAL

There are a number of reasons to choose them as the research object of this study. Firstly, New Oriental and TAL have established companies and highly representative of private education corporations.

Secondly, both of them were founded in the 1990s and has been operating for decades, which enables them to accumulate much practical experience for surviving this crisis. Last but not least, as they are both listed companies, the data of their operations is available for collection.

## 2.1. Introduction of New Oriental and TAL

Founded in 1993, New Oriental is a comprehensive education group. Currently, it is the largest provider of private educational services in China by the number of program offerings, total student enrollments and geographic presence.

TAL is a technology education company dedicated to exploring new models of future education on a global scale, with its focus placed on smart education and open platform, as well as quality education and after-school training. Established in 1997, it has become the major market rival against New Oriental for years.

## 2.2. Overview of the crisis

Crisis has its life cycle. There are many scholars exploring the life cycle of the crisis and proposing different crisis management theories. Most scholars have adopted the stage-oriented crisis management theories that differentiate the characteristics of the crisis on the basis of the development stage. For instance, some renowned crisis lifecycle theories have respectively looked into crisis by three-stage [3], four-stage and five-stage [4].

In this study, the four-stage theory has been adopted to analyse the crisis arising after the release of the “double reduction” policy. The reason why four-stage theory is selected is that three-stage theory oversimplifies the crisis process and five-stage theory is too complex to apply in this analysis.

According to Fink [4] who first proposed the four-stage life-cycle theory of crisis, a crisis can be divided into the following four phases, namely, “Prodromal”, “Breakout or acute”, “Chronic”, and “Resolution”. With reference to the research of Li [5], a crisis life cycle can be mapped out in Figure 1. Thereby, the following analysis will be presented in line with the aforementioned four stages.

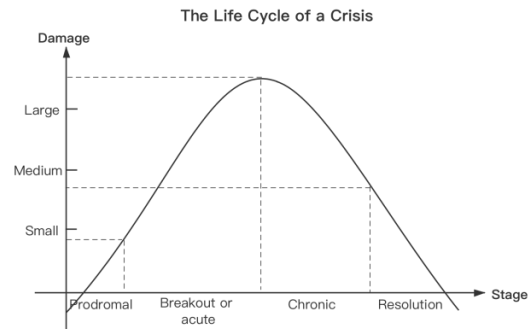


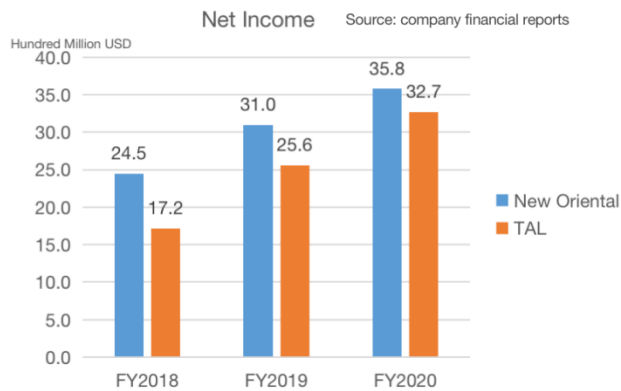
Figure 1 The lifecycle of a crisis

### 2.2.1. Prodromal stage

Prodromal stage, also known as the warning stage, denotes the pre-crisis time when there is no or little signs of the occurrence of a crisis [4]. Chinese previous policies on private education industry have foreshadowed the crisis to some extent. Back to December 2018, the Chinese Ministry of Education and other related departments jointly issued a policy that required local governments to take measures to promote the development of quality education and curtail the excessive development of extra-curriculum tutoring institutions. In addition, at the two sessions held in 2019, the education minister clarified that, the government must stick to the idea of reducing the burden placed on students and aligning all kinds of training institutions regardless of whatever difficulty ahead.

Given the shift of industrial policy, New Oriental and TAL made adjustments to their investment strategy. In the same year, both companies increased their investments in quality education and education-related technology apart from K-12 education. Notably, the investment strategy adopted by TAL was more diversified, covering vocational education, sports training and even human services. Moreover, TAL showed a stronger motivation to enter overseas markets with its investment in two foreign companies, Vedantu and Minerva Project.

In the prodromal stage, New Oriental and TAL are both sensitive to the potential risks and take countermeasures proactively. As illustrated in Figure 2, in case of any changes in the external environment, they can adjust their strategies promptly, making their net income rise steadily. Thus, one concluded that both companies did notice the sign of crisis and perform actively.



**Figure 2** Net income of New oriental and TAL

**Table1.** Performance of New Oriental and TAL in the US Stock Market

Corp.	Date	Opening Price (\$)	Closing Price (\$)	Range of Increase/Decrease
New Oriental	16/07/2021	6.68	6.46	-5.56%
	23/07/2021	2.47	2.93	-54.22%
	30/07/2021	2.17	2.17	-1.81%
	06/08/2021	2.14	2.10	-1.87%
TAL	16/07/2021	20.57	19.85	-9.53%
	23/07/2021	8.77	6.00	-70.76%
	30/07/2021	5.87	6.07	3.41%
	06/08/2021	5.78	5.84	-1.52%

In this circumstance, New Oriental and TAL took swift actions in response. Firstly, they made announcements of cancelling the release of financial reports and providing further updates in due course. Additionally, a statement was made on social media sites that the relevant businesses had been shut down to ensure compliance with the rules and regulations, which affected the operation of the company negatively.

The temporary cancellation of releasing financial reports is rare to occur, implying the attempt made by both New Oriental and TAL to make adjustments. Meanwhile, they made a wise move to keep the public updated. These actions reflected the flexibility of both companies to some extent and avoided more harms from occurring in such an acute time.

### 2.2.3. Chronic stage

Chronic stage is the crisis phase when the dynamics and uncertainty levels start to decrease, and everything becomes stabilized [7]. However, this period can also be risky and whether an organization can survive in the long term would be dependent on its performance in the chronic stage.

### 2.2.2. Breakout or acute stage

Breakout or acute stage commences when the crisis turns into visible for the stakeholders inside and outside the organization. It is the stage that would start generating detrimental impacts on the organization [6].

On July the 24<sup>th</sup>, 2021, the “double reduction” policy was published. On that day, as listed in Table 1, the share price of New Oriental and TAL in the US stock market slumped 54.22% to US\$2.93 and 70.76% to US\$6.00, respectively, much worse than expected.

Since the crisis was triggered by a state policy, it would cause a radical and permanent change to the market size and profit model for private education companies. Therefore, New Oriental and TAL began the shift of their strategic focus from the K-12 area to other segments of education, while accelerating the development of family education, vocational education and college education.

For example, New Oriental set up the “Quality Education Growth Center” with 6 sections, including the Artistic Creation Academy, Humanities Development Academy, Language Quotient Literacy Academy, Nature Science and Creativity Space Station, Intellectual Sports Training Hall, and Family Education Wisdom Hall. In addition, New Oriental announced the establishment of Blingo, which refers to a Chinese language and culture learning programme, for its expansion into the overseas Chinese market.

As for TAL, it made responses to the policy even more swiftly with the launch of the “TAL light boat” and “Better me” in early July. More specifically, the former focuses more to college education and vocational education, while the latter is dedicated to providing non-disciplinary services for primary school students, including pick-up service, meal service etc.

#### 2.2.4. Resolution stage

The resolution stage refers to the end of the crisis [8]. During this stage, it is the time to make reflections and strive to reach back to the normal status. As for the case discussed in this study, in fact, the negative impacts caused by the crisis has yet to be completely eliminated. However, the share prices of New Oriental have risen sharply since late August 2021, a phenomenon indicates the investors have more confidence in education industry than before. This is somewhat attributed to the effective response made by the education companies to the crisis.

In addition, the good news is coming gradually. Beijing, which took the lead in implementing the policy, announced an allowed list of disciplinary after-school tutoring institutions, with New Oriental listed. Only those that meet the relevant requirements, e.g., capital supervision, school running license, epidemic prevention and control, code of conduct, can be listed. The crisis has gradually entered into the resolution stage where both corporations have established their new competitive strategies.

### 3. RESULTS

There are plenty of education institutions that have been forced out of business due to the “double reduction” policy. However, New Oriental and TAL took swift actions in response to the crisis, which contributed significantly to minimizing the damage caused by the crisis.

In prodromal stage, both companies adjusted their strategies to adapt to the policy shift of education industry. In breakout or acute stage, they both cancelled the release of financial reports and released statements on social media platforms. In chronic stage and resolution stage, they changed their strategic focus and gradually reduced the negative impacts.

### 4. DISCUSSION

The logic behind the effectiveness of the measures taken by two companies is that both companies have a strong dynamic capability.

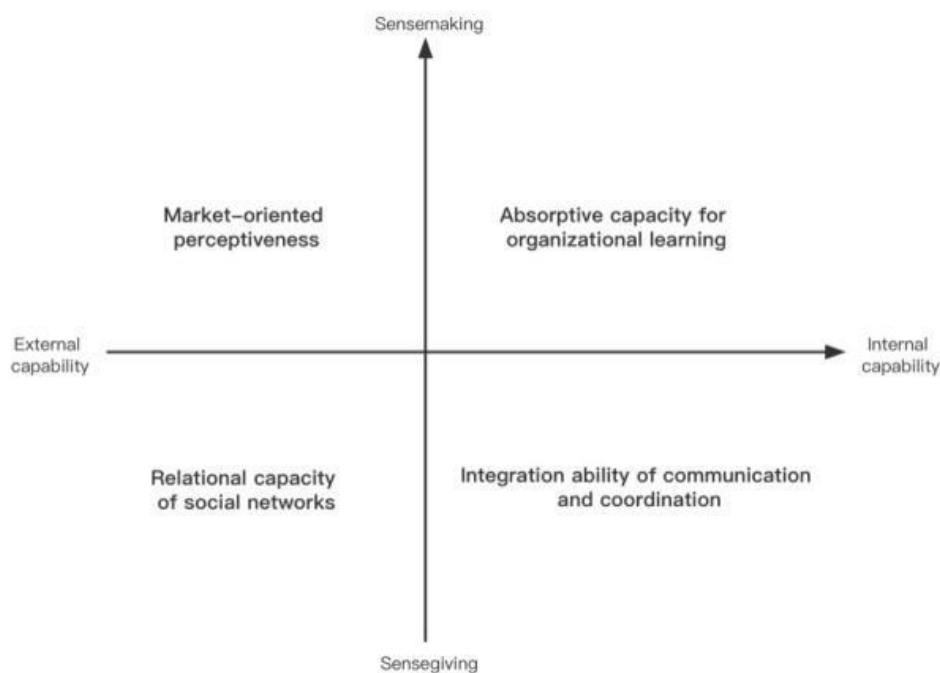


Figure 3 Dynamic capability model

According to a four-dimensional model constructed by Min [9], as shown in Figure 3, there are four capabilities involved to measure the dynamic capability of a company. The first one is market-oriented perceptiveness; the second one is the absorptive capacity of organizational learning; the third one is the relational capacity of social networks, and the last one is the

integration ability of communication and coordination [10]. Based on this model, there are some suggestions made for Chinese private education companies to carry out crisis management.

First, it should be noted that there are always signs of crisis. In this case, some rules and regulations had been issued years before the “double reduction” policy was

published. From the perspective of companies, they should keep monitoring the change in the external environment closely and guard against various potential risks. To be more precise, market-oriented perceptiveness is required for companies as the issuance of the “double reduction” policy by the government is that students and parents feel overwhelmed by the pressure of after-class tutoring.

Then, the absorptive capability for organizational learning is equally important. In other words, an organization need to keep changing and redesigning to adapt to the ever-changing external environment. It can be found out that New Oriental and TAL reduced the negative impact of the crisis through flexible change to their business structures and profit models. With these flexibility, they can survive in such a dramatically changing market environment.

Afterward, the relational capability of social networks is equally crucial for crisis management, which requires a company to manage its social network effectively, including its partners, investors, customers and media. When faced with the crisis, New Oriental and TAL chose to make adjustment and selectively publish some statements, rather than fully disclosing all information to stakeholders at once, which is conducive to maintaining a good corporate reputation and the confidence of investors. In this sense, their proactive network management is also a key factor to their survival in such a crisis.

Last but not least, New Oriental and TAL have excellent integration ability of communication and coordination. As they both have a diversified business structure, the integration ability enables them to reinforce their advantages. Therefore, companies, especially those companies engaged in different businesses, ought to develop their own integration ability to make the most of a diversified layout.

Overall, crisis management is currently essential for Chinese private education companies. With the implication from the case studies of New Oriental and TAL, it is suggested pertinent companies should refer to their best practice to overcome the existing challenges. And for further research, more cases with different characteristics, more related data, more empirical studies across different cultures and social contexts could be conducted to further study and refine the findings and suggestions.

## 5. CONCLUSION

Conducting the case studies of New Oriental and TAL, two representative education corporations, this

paper has shown that a strong dynamic capability can explain why the two companies can respond effectively to the crisis brought by “double reduction” policy. High market sensitivity, strong organizational ability to learn and adapt, good management of social networks and external communication and coordination skills are the core content of a strong dynamic capability, enabling New Oriental and TAL to emerge from the crisis.

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