

УДК 378.09

**FOR-PROFIT COLLEGES IN CHINA: NECESSITY,
POSSIBILITY AND MEASURES**

Wang Yitao, Gao Fei

*Research Department of China's Private Higher Education Zhejiang
Shuren University (Hangzhou, China)*

E-mail: wangyitaoccnu@163.com

**КОМЕРЦІЙНІ ВИЩІ НАВЧАЛЬНІ ЗАКЛАДИ В КНР:
МОЖЛИВОСТІ, ПЕРСПЕКТИВИ І НЕОБХІДНІСТЬ**

Ван Ітао, Гао Фей

*НДІ Комерційної освіти при Університеті Шучжень, провінція
Чжецзян (м. Ханьчжоу, провінція Чжецзян, КНР)*

Although the for-profit university is an important type of university in the world, it is, however, not fully shaped in China, where for-profit education and training industry boom. Exploring the establishment of for-profit private universities is beneficial to the expanding amount of private education resources and improving the usage efficiency of higher educational resources, and can foster the improvement of the competitiveness of China's educational services and reverse the trade deficit of that industry. Nowadays the favourable conditions for such exploring have been established in China. To facilitate the establishing of for-profit universities, we should lower requirements on hardware and draw up necessary favorable policies; standardize their financial management while charging proper amount of risk margin, and meanwhile research on applicable methods for assessment.

Keywords: for-profit universities, education, training, education service, educational authority, college.

Introduction. In China, for-profit education is commonly known as education and training industry. From the perspective of industry division, it

belongs to the tertiary sector and makes up an important part of the modern service industry. According to statistics, in 2007 the education and training industry in China takes in over 100 billion RMB, growing at an rate of over 30% annually, while the potential market size of this industry in China approaching 300 billion RMB [4]. The thriving of education and training industry owes to the great need from all societal areas. It appears that in the current education and training industry, higher education occupies only a smaller part, but the reality is in fact opposite: the for-profit higher education is large in size. According to statistics published in 2011 by the Department of Education, by the end of 2010, there are 836 “other private higher educational institutes” in China with a student body of 921,841 [2]. These private higher educational institutes are usually specialty colleges and test preparational tutoring organizations and are basically for-profit. Private higher educational organizations are subject to little financial supervision, and therefore have great freedom in financial decision-making. The Department of Education dictates by Decree 25 of Education Department that all private higher education institutes transfer their asset, but this decree didn't cover specialty colleges in this area, which demonstrates the acquiescence of the government to their for-profit nature.

The aim of the study is to analyze the practice of non-profitable educational authorities in China and characterize the problem from different points of view.

Results. As of May 2012, there are in total 11 education and training companies that have gone public in the U.S. Apart from those 11 companies public in the U.S., ViaGOLD International Education Management Group Limited, headquartered in Zhuhai, is the only Chinese company public in Australia. It has affiliated institutes such as Broad Technology Institute, Zhuhai and Zhuhai Institute of International Business and Economics. According to the authors' own research, among these 353 private colleges, most are established by investment, meaning that the founders desire to benefit financially and have for-profit motive. Therefore, depending on the founder's motives, we can divide private universities into two types:

The first type is owned by those who don't seek financial gains, who are usually retired government officials, university leaders or teachers. For a long time in China, only a few young people of the right age could receive higher education. In order to provide opportunities for more youth to receive higher education, as well as to produce more talents for the country, some retired government officials and teachers charged themselves with the mission to found

private colleges. There are many cases of this type, for example, Hunan Jiuyi Mountain College, founded by Le Tianyu in 1980; Zhonghua Social College, founded by Nie Zhen and others in 1982; Zhengjiang Shuren College, founded by Wang Jiayang in 1984; Heilongjiang Oriental Institutes, founded by Meng Xin and others in 1992; Xiamen Huasha Occupational College, founded by Cai Wanghuai and others in 1993, etc.

The second type is founded by economically provident businessmen who find the great need for higher education of young people a valuable opportunity of business and see investment in schools same as investment in other fields. They start with training classes and tutoring classes, and gradually elevate to specialty level, some even making it to undergraduate institutes. This is the “investment in colleges” phenomenon among China’s private colleges. According to a survey among the law-makers in private education, this type covers up to 90% of the entire private college body [5].

However, from the 1995 Education Law of the People’s Republic of China, to the 1997 Regulations on the Running of Educational Institutions with Social Resources issued by the State Council, to the Private Education Promotion Law effected in 2003, the government has invariably accentuated that public welfare be the basic nature of private education in China, and has never approved of private colleges making profit, and the law has never granted for-profit colleges legal status. As a consequence, these profit-seeking founders cannot proclaim that their colleges are for-profit, and most of them even say they “don’t require even reasonable repayment”. In turn, to gain profit, these founders can only resort to underhand means such as faking high expenses, connected transaction, spending in the name of work and so on, under the banner of “nonprofit”.

To actively explore and establish for-profit private colleges is of huge significance to facilitating the development of China’s private education and even the entire higher education. Specifically, there are three aspects that shed light on this significance:

The World Bank considers that dividing colleges into nonprofit and for-profit is essentially more meaningful than dividing them into public and private. Ever since the beginning of private education in China, there has been no distinguishing among private colleges, and all of them are subject to the same policies. Yet private colleges are diverse in type, with some being purely nonprofit, and others for-profit. Therefore, conducting classification management on private colleges and drawing up policies for different types of

private colleges is an important approach to facilitating healthy development of China's private higher education.

Responding to the situation, the Compendium of National Education Plan clearly states that private schools should be placed under classification management. However, when issued, it wasn't a success nationwide: most areas did not experiment on classification management. The reason that classification management was met with indifference was mainly that most private colleges resisted such an idea. Many private colleges would rather gain profit in the dark under the cover of "nonprofit". But if classification management is carried through, they would have to make a choice between the two types, and could no longer make profit under guise.

Throughout the nation, Wenzhou, Shanxi and Fujian are probably the only three with experimenting points of classification management. They specifically divide private schools (including private colleges) into for-profit and nonprofit. In the new policies of Wenzhou and Shaanxi, to guide as many private colleges as possible to take a nonprofit path, policy-makers have greatly lower the requirements for the recognition of being nonprofit, and also gives nonprofit private colleges many "unusually" rights, which normally belong only to for-profit private colleges. For example, one of Shaanxi's new policies stipulates that "nonprofit colleges include those founded by donations, by investments that requires repayment below reasonable standard, or by investments that require repayment at reasonable standard". This means that nonprofit private college founders' property rights are protected and that they are allowed to make profit. The new policies of Wenzhou also stipulate that "private colleges registered as private institutes... can draw a certain amount of money from the surplus of running the college and use it as a reward for the investors", "annual reward can be as much as twice the amount of annual interest generated by the an amount same as the grand total of their investments according to the benchmark interest rate". Wenzhou's new policies evidently declare protection for the property rights of private nonprofit college investors: "the invested properties belong to the investors, and the ownership (or shares) thereof can be transferred, inherited or given away, but cannot be withdrawn while the invested institute exists" [1].

However, there are two questions worth notice with those new policies:

Firstly, by their logic, since all nonprofit private colleges enjoys governmental aid while also retaining property rights and the right to gain repayment, almost all private colleges will opt for "nonprofit private colleges". If all 353 private colleges in China opted for nonprofit private colleges and none

for for-profit, then how can the “classification management”, promoted by the Compendium, be carried out? Clearly the Compendium’s stipulation is based upon classification.

Secondly, their definition of “nonprofit private colleges” does not fit international conventions, and can only be an expedient solution. Take Wenzhou’s policies for example: supposing some investor’s investments in a private college add up to 200 million, while the benchmark annual interest rate in Feb. 2011 is 6.06%, then this investor can gain 2,424 million’s reward each year. To allow for such an amount of reward within nonprofit private college can only be an expedient measure, and not a long-term policy for private education.

Faced with the two above dilemmas, the only solution is to construct a proper system that makes some private colleges willingly or unwillingly choose to become for-profit colleges. Invested founding of private colleges is not an uncommon phenomenon in China; and the realization of classification management has to be based upon that fact and the construction of a proper system that guide most private colleges onto the path of nonprofit operation. But the current classification management experimenting has a standard too low for the recognition as nonprofit private college, and also lack a comprehensive system to manage for-profit colleges. To truly push forward the implementation of classification management, at present a proper definition of for-profit college should be made, as well as the favorable policies and operation regulations for them. A possible approach is to turn these colleges into the other type and effect classification management on them one by one, thus gradually diversify all private colleges between for-profit and nonprofit, and even if only one private college becomes a real for-profit college, China has taken a substantial step on the path of classification management.

As a developing country, China has only limited higher educational resources. Therefore, expanding higher education resources has been and still is an important task in China’s endeavor to become a great power of higher education. On the other hand, establishing for-profit private colleges means expanding the resource pool of China’s higher education. Despite the great amount of China’s societal capital, the investment in education is limited. One important reason for that is that education in China is public, and the investors cannot acquire repayment freely. Apparently that has become the bottleneck for China’s private education in drawing in capital. After the enactment of the Private Education Promotion Law, policy-makers’ bid to draw in greater amount of capital for education industry by allowing reasonable repayment has failed, due to

the unclear prospects of repayment of education investments. The fact that 12 Chinese educational companies went public in the U.S. and Australia and yet none in China reveals that the real problem is China's lack of proper conditions for for-profit education. Once China set up experimenting points of for-profit private education, the incoming capital for private education will swiftly expand, contributing to consolidating China's status as a large country of higher education and its elevating to the rank of great powers of higher education.

Not only will establishing for-profit colleges expand the resource pool of China's higher education, but it will also prove to introduce a mechanism that use resources with higher efficiency than public and other nonprofit colleges. From the perspective of economics, education is a kind of service, and like all other kinds of services, it can be regulated by market mechanisms. The demand by educatees arises from the fact that education can increase their knowledge and improve their skills, resulting in an increase in the price for their labor in the market. Education-providers can gain reasonable profit at the condition of meeting the former's demand. For-profit private colleges are exactly the means by which both the educatees' demand for education and the education-providers' desire for profit can be met. Of course, in order to limit costs, for-profit private colleges might abandon some fundamental scientific subjects and focus on the disciplines that can swiftly show their value in labor market; but that in fact aligns with the country's advocacy of producing applicable talents.

Necessities are only the prerequisites in this matter; so how is China equipped for establishing for-profit private colleges. Compared to the necessities, this is the more important questions. The author believes that China IS fully equipped for this cause. China practices a national academic degree system. As a kind of national credit system, it arises from the planned economic system. This national academic degree system has the following characteristics:

Firstly, a degree has significant value and meaning because it's one of a person's most important resources. A degree represents more than knowledge and capability, because it opens up doors to a successful career. Secondly, a degree is guaranteed by national credibility. Only the institutes authorized by the country can award academic degrees. This kind of academic degree based on national credibility is distinguished from those in the U.S. based on authentication. In the U.S., all institutes can issue their own degree credentials, but its value depends on authentication by governmental institutes. In China, however, an institute can issue degree credentials without further authentication, as long as it is authorized to do so; and such a degree is of great value. Within the national academic degree

system, granting an institute the right to award degrees means endowing it with huge resources. This then begs the question: will for-profit institutes become degree-selling shops, where students from rich families can buy themselves degrees, aggravating the nationwide educational injustice.

Admittedly, in today's situation where higher education comes short and the market is dominated by the suppliers, the foresaid problem might occur. But the trend in China's higher education market is that the resources are daily growing, and higher education is advancing to a universal stage. For some types of higher education, the supply has even already exceeded the demand. Take Shandong province for example: in 2010, Qingdao Vocational and Technical College planned to recruit 2805 students from its own province, yet only 108 applied by first choice, and after second choices are processed, the vacancies still amounts to over 2500. It was the same case with Qingdao Qiushi Vocational and Technical College: planning a recruitment of 1271, receiving only 509 applications by first choice and in the end coming short by 500 [8]. In Jiangsu Province, most private specialty colleges (higher vocational colleges) and some of public specialty colleges (higher vocational colleges) have even begun to recruit by registration in 2011. Recruiting by registration means that basically all high school graduates with a need for higher education can be enrolled. Under such circumstances, allowing some private institutes to operate for-profit won't damage social justice. Besides, there's little chance that they become degree-selling shops, because once they neglect the quality, they won't survive in the market.

Still, a prudent approach can be taken, which is to experiment first on specific levels in some private colleges. And when the time is ripe, the choice can be presented to all private undergraduate colleges as to whether or not to become for-profit. Firstly, opening the channel for private colleges to choose their own operation mode, which is a feasible way to set up experimenting points among for-profit private colleges in the short term. For the extant private colleges, as long as they are willing to, they can become for-profit private colleges in a short time. Huang Xinmao once designed a scheme for "reasonable diversification" of the extant private colleges. Huang thinks the extant private colleges may choose the path of nonprofit as well as for-profit [6]. For example, some for-profit education and training corporations (like Laureate Education and ChinaCast Education, as will be mentioned in the following text) might immediately choose for their colleges to become for-profit. Secondly, allowing some for-profit education and training corporations to set up for-profit private colleges. Some education and training institutes have built up good reputation,

abundant capital and superior financing ability, and they may establish for-profit private colleges while they maintain their business. For example, for New Oriental, with a market value of 4 billion dollars and an annual net profit of some 70 million, establishing a for-profit private college (like a for-profit foreign language institute) with the help of their good reputation and abundant capital is not a difficult task. And such a foreign language college will be no less attractive than most of the extant public or private ones.

Thirdly, specialty colleges might become the main force of for-profit private colleges. Specialty colleges are higher education institutes capable of issuing associate degrees. Their main service is hosting tests for self-prepared test-takers and those who have passed will be granted credentials recognized by the country.

By whatever approach, venture capital organization and foreign for-profit education corporation will be a significant push to for-profit private colleges. Recently, our education and training industry has caught the attention of many venture capital institutes. From 2006 to 2010, there are over 20 education and training institutes in China that got more than 10 million dollars' investment, including New Oriental, Xueersi Education and Anbo Education. Notably, Anbo financed more than 150 million dollars in the two years from 2007 to 2008 [9]. Foreseeably, when for-profit private college experiments succeed, many venture capital organizations will invest in all kinds of education and training institutes (including specialty colleges) and the extant private colleges and will turn them into for-profit private institutes, and do their best to improve these institutes' competitiveness in the market.

China is currently the biggest market in the world for higher education. As its economy steadily develops, its people's payment ability constantly rises and foreign for-profit education corporation is increasing direct education service in China. For example, the largest education investment corporation, Laureate Education is highly interested in entering China's education market, and has now established substantial cooperation relations with private institutes such as Hunan International Economics University, Chongqing Tianyi University and the Les Roches Jin Jiang International Hotel Management College in Shanghai. ChinaCast Education, founded in Hongkong and listed in the U.S. market in 2004, has invested in three independent institutes; they are: Foreign Trade & Business College of Chongqing Normal University, Lijiang College of Guangxi Normal University and Hubei University of Technology College of Commerce. Pressured by China's laws and public opinions, these institutes

invested by the two corporations still claim to the public to be nonprofit. It is certain that once for-profit private college experiments succeed, more foreign for-profit education organizations will be swarming into China's market and more domestic education corporation will establish or merger for-profit private institutes, bringing new vitality to the country's private higher education.

Conclusion: Governmental policies are decisive in establishing for-profit private colleges. To induce the development of for-profit institutes, policies such as follows must be made:

For-profit colleges earn everything from tuition, and in order to cover their costs with surplus to spare, they must compress their operation costs while maintaining the quality of their service; otherwise they will make no profit. China has relatively strict requirements on the hardware of private colleges. According to Establishing standards of Higher Vocational Schools (provisional), establishing a higher vocational school must meet these conditions: "at the initial stages, the school have teaching, experimenting and administration rooms of more than 20 square meters, a total land area of about 10 hectares", "the total value of teaching instruments amounts to no less than 6 million", "there are no less than 80,000 suitable books." And all those conditions only apply to initial stages. In 4 years after establishing, the school must gradually achieve higher standards, among which are: "having teaching instruments valuing no less than 10 million, total built-up area of no less than 60,000, and suitable books of no less than 150,000 in number."

What need to be pointed out is, although the above standards surely indicate a school's substantial strength, many more standards are not necessarily connected to its' education quality, and there's no need to put strict requirements on those. For example, the requirement on the number of books would be necessary in days when the Internet is yet not so available, but nowadays electronics and Internet media are so powerful, and overstressing the number of material books will only add to the school's financial burden. Therefore, rather than prioritize the number of books and things as such, the school should instead place their fund on other aspects more relative to education quality.

But right now, the standard that should first be lowered is that of land area. Land area has little to do with education quality. In the U.S., the land area of some for-profit colleges is simply that of a building; some are even embedded within shopping malls and office zones [7]. According to the current estate price, 0.1 square kilometers would need about 1.5 billion. Such a huge expense would no doubt daunt any who wished to invest in for-profit colleges. Besides,

investments in these aspects substantially reduce those really used to improve education quality.

From the perspective of encouraging experimenting among private colleges, at present some necessary favorable policies should be offered, especially regarding the following aspects:

First, the right to set up majors and courses freely. For-profit private colleges are those closest to labor market, therefore they set up majors and courses according to the market's. In China, setting up majors and courses are completely out of colleges' authority and is greatly subject to restrictions on national levels. Regarding for-profit colleges, to improve their market competitiveness, and also to accumulate experience for other colleges in major and course reformation, the national policies should allow them to spare some general courses or reduce the course hours. Of course, in the long run, all private and public colleges should have the right to set up majors and courses, but right now, as other private colleges and public colleges do not have such a right, it can be seen as a favorable policy for for-profit colleges.

Secondly, the right to set the price of tuition freely. For-profit colleges should be allowed to set their own price of tuition according to market demand and their own educational service. Some might be concerned that granting them such a right, they will all set exorbitant price in order to profiteer. From the perspective of economics, that is totally unfounded. As long as a market is not monopolized, profiteering can only exist when a product or service is irreplaceable, and therefore will not do harm to social justice. In other words, consumers are rational, and if a for-profit college provides service that doesn't live up to the price level, they will simply let go of it. Therefore, a college can only profiteer if the consumers think the service they provide is worth the charge.

Thirdly, relatively more freedom in fund operation and profit distribution. After-tax profit can also be distributed within the restrictions of the Company Law, and their property rights should be protected with clear definitions. The current laws don't allow private colleges to mortgage assets used for teaching; and it should be modified for the sake of for-profit private colleges. What still needs to be pointed out is that fluid capital and assets that can be mortgaged are huge risks for colleges as well as more applicable fund.

Compared to public and nonprofit colleges, for-profit private colleges face much greater market risks and possibility of bankruptcy, which will in turn affect their students. Besides, due to their liberty in usage of their fund, one can't rule out the risks of breaking the capital chain in operation, or the possible case of

founders absconding with funds – which happened a number of times in China’s private education. In Australia, 2009, there was also a similar case where 4 private colleges shut down due to several shareholders’ withdrawal and 2,700 students were out of school [3].

In order to avoid risks in operation, especially those that might lead to a college’s shutting down and harm the students’ interests, proper financial monitoring should be exerted upon private colleges. Although for-profit colleges have relative more liberty with their funds, it doesn’t mean they can do whatever they want. They must also conduct strict financial management according to the financial system laid out by the Company Laws and the Accounting Laws. Any illegal action must be strictly dealt with, especially in cases of capital flight and embezzlement.

Schools are institutes that practices prepaid service, which means students must pay their tuition before they receive education, unlike in most of other service industries where service comes before payment. In the prepaid system, once the school goes bankrupted or if the founders shut it down in malfeasance, students’ interests are most vulnerable to harm. In order to prevent such a scenario, a proper amount of risk margin should be charged of the schools, which can compensate for the students’ loss in the worst case and might hold the founders off from malfeasance. The risk margins should be deposited in the bank and managed by the government. Currently, Ningbo, Shanxi and Shaanxi have already started to practice the risk margin policy.

Apart from that, an early warning system regarding schools’ bankruptcy should be established. For the private colleges with low-quality education, bad reputation and decreasing annual enrollment, special monitoring should be conducted on them. An early warning system can allow the government time to respond forehanded, so as to effectively prevent group events of students if the college should shut down. The students of bankrupted colleges should be properly arranged for, such as enrolling them in other for-profit or nonprofit private colleges with the latter’s consent.

REFERENCES

1. Dong Shengzu. Wenzhou's New policies: Paradigm of Regional Innovation in Private Education System / Dong Shengzu // Exploring Education Development. — 2011. — №22. — p. 1–6.
2. Electronic resource : <http://www.moe.edu.cn/publicfiles/business/htmlfiles/moe/s6200/201201/129614.html>
3. Electronic resource : <http://news.sohu.com/20091109/n268051479.shtml>
4. Han Mei. China's Education and Training Industry Grows Over 30% with 300 Billion Market Size / Han Mei // China Youth Daily. — 2010. — №2. — p. 16.
5. Han Min. The meaning of effecting the private education promotion law and the policy tasks / Han Min, Zhang Li // Education Research. — 2004. — №4. — p. 9.
6. Huang Xinmao. Some Thoughts on the Classification Management of For-profit and Non-profit Private Colleges. [1st ed.] / Huang Xinmao — Education Information, 2011. — 139 p.
7. Kinser, K. The For-profit Sector: U.S. Patterns and International Echoes in Higher Education. / Kinser, K. & Levy, D. — Albany : University at Albany ; State University of New York, 2005. — 249 p.
8. Private Colleges Faced With Survival Crisis: Large Shortage In Recruitment And Low Registration Rate // Electronic resource : <http://edu.sina.com.cn/gaokao/2010-08-31/1546265495.shtml>.2010-08-31.
9. Zheng Jichang. China's Education and Training Industry: the Current Status, Problems, Trends and Countermeasures. A Report On the Development of China's Service Industry. / Zheng Jichang, Xia Qing, Wang Yitao ; [Ed. Jin Linbo, et al.]. — Beijing : Social Science Academic Press, 2011. — 217 p.

Ван Итао, Гао Фей. Комерційні вищі навчальні заклади в КНР: можливості, перспективи і необхідність

Незважаючи на те, що комерційні університети є важливим типом навчальних закладів у світі, проте даний сектор сформований не повною мірою в Китаї, де безкоштовні вищі навчальні заклади становлять більшість. Вивчення питання про створення комерційних університетів є перспективним для розширення спектру освітніх ресурсів і підвищення ефективності вищих навчальних закладів, може сприяти підвищенню конкурентоспроможності освітніх послуг Китаю і нівелювати певний дефіцит в даній галузі. На сьогодні в Китаї склалися сприятливі умови для виникнення вищих навчальних закладів зазначеного типу. Серед першочергових завдань для формування сектора комерційних коледжів і університетів у системі вищої освіти КНР необхідно знизити рівень вимог до матеріальної бази навчального закладу, стандартизувати підходи до його фінансового та управлінського аспектів функціонування, на державному рівні впровадити програми, що захищають дані навчальні заклади від фінансових втрат, провести ретельний теоретичний аналіз проблеми.

Ключові слова: комерційний навчальний заклад, освіта, навчання, освітні послуги, університет, коледж.

Ван Итао, Гао Фэй. Коммерческие высшие учебные заведения в КНР: возможности, перспективы и необходимость

Несмотря на то, что коммерческие университеты являются важным типом учебных заведений в мире, это, однако данный сектор сформирован в Китае не в полной мере, где бесплатные высшие учебные заведения составляют большинство. Изучение вопроса о создании коммерческих университетов является перспективным для расширения спектра образовательных ресурсов и повышение эффективности высших учебных заведений, может способствовать повышению конкурентоспособности образовательных услуг Китая и нивелировать определённый дефицит в данной отрасли. На сегодня в Китае сложились благоприятные условия для возникновения высших учебных заведений данного типа. Среди первоочередных задач для формирования сектора коммерческих колледжей и университетов в системе высшего образования КНР необходимо снизить уровень требований к материальной базе учебного заведения, стандартизировать подходы к финансовому и управленческому аспектам функционирования, на государственном уровне внедрить программы, защищающие данные учебные заведения от финансовых потерь, провести тщательный теоретический анализ проблемы.

Ключевые слова: коммерческое учебное заведение, образование, обучение, образовательные услуги, университет, колледж.