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Analysis of the listing financing problems of private education institutions in China

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ABSTRACT

In recent years, private educational institutions in China has rapid developed, but financing difficulties seriously hampered their development. Under this circumstance, a lot of private educational institutions have chosen to market finance in foreign countries, none in the domestic market. In this paper, through the analysis of private educational institutions financing environment, the foreign market financing and foreign public financing of private education institutions, we study and use the model structure to explain the key factors of private educational institutions in the domestic market. Proposals were made about the private educational institutions in domestic public financing and its feasibility analysis and argumentation.

KEYWORDS

Collectively owned educational institutions; Private educational institutions; Listing; Financing.

INTRODUCTION

In recent years, the number of private educational institutions in China, is growing at an alarming rate, no doubt has made tremendous contributions to the development of education in China. However, the problem of financing difficulties faced by the majority of private educational institutions seriously hampered their development. Under this circumstance, a lot of high-quality private education institutions have chosen to foreign market financing. If the conditions are mature, then private education institutions can finance in the domestic market, it will be a great boon for the China's private educational institutions. It is also a historic innovation in the securities market for China. The capital market will achieve the breakthrough of "education sector".

Collectively owned education in foreign countries, also known as "Private Education", is an opposite form of public education, it is social organizations or individuals who are outside the state institutions, organized schools and other educational institutions using the non-state financial funds.

There are many related studies about the financing problem for private educational institutions[1]. The study of Kevin G. Quinn mentioned in 《The financing of private school》 indicates that the private education institutions funding sources rely mainly on tuition revenue, charitable donation, investment portfolio and the bank loan. However, capital market has become a more important way for financing. And he proposed that the private educational institution which is in need more than 5 million dollars can apply for issue tax-exempt bonds. The cost of the Tax-Exempt Bond is low, and it can be issued at a fixed interest and at any time between 20 to 30 years. Ryan Hahn who works in Institute for Higher Education Policy has made a study in 《The rise of private financing of the higher education in the world》, he pointed out that the public fund in most countries could not meet the increasing capital demand of higher education, and the private financing has been an important part of education financing in many countries.

Ryan Hahn believes that one way to make a funding of the higher education institutions from the private capital market is to issue bonds. A university issues bonds through public market, after a period of time, investors can recover the principal and interest. He also thinks that private equity plays an important role in the financing of higher education in many countries. For higher education institutions, private equity financing are not traded on the open platform of securities exchange, but directly obtain funds from Private Equity Investment Firm, investment companies profit from income of higher education institutions. American western Illinois University academic adviser Francis Atuahene make a study about the Garner's higher education finance in "Garner's higher education finance" (2008) and found that: the Garner Education Trust Fund (GEF Fund) has made an important contribution to the Garner higher education infrastructure improvement, students and the teacher training, distance education[2]. USA Boston College professor Philip G.Altbach in the "private higher education: patterns and trends" (2008) said that the use of foreign capital is also a good way of financing for the private higher education. John Aubrey Douglass in " money, politics and rise of American for-profit higher education" (2012) pointed out that, in the last century 90's, large of for-profit private educational institutions make a financing through the stock market, and the largest one is the America Appollo education group[3]. Due to that there is no one of the private education institution appears on the market, so there is almost no systematic research on it[4].

THE OVERALL PROFILE OF PRIVATE EDUCATIONAL INSTITUTIONS IN FOREIGN PUBLIC FINANCING

If the domestic financing needs cannot be met, a lot of high-quality private education institutions have chosen to list financing in foreign market. The following is a basic situation list (TABLE 1) of educational institutions list financing in foreign market:

15 private educational institutions overseas listed above, include private colleges, English training institutions, IT vocational training institutions, vocational education institutions, tutoring in basic education institutions, distance education institutions. It shows that foreign capital markets is welcome public financing of private education institutions, education sector is part of the overall stock market.

IMPLICATIONS OF THE UNITED STATES PUBLIC FINANCING OF PRIVATE EDUCATION INSTITUTIONS FOR PRIVATE EDUCATIONAL INSTITUTIONS IN CHINA

The nature of U.S. private educational institutions sponsoring is very clear, for-profit and non-profit co-exist. They are playing an extremely important role in the education system. According to statistics, in 2011, the United States has 4,182 universities, including 2484 private colleges and universities, accounting for 59.4%; enrollment in colleges and universities reaches 15,311 million students, 3,559,000 in private colleges and universities, accounting for 23.5% of the total. The U.S. Apollo Group, Vocational Education Group, Corinthian Colleges, Dery Education Management, ITT Education Services and other for-profit private education institutions. Many American private educational institutions, in order to solve the financial problem, have come through the listing financing. The largest of which is the Apollo Group.

TABLE 1 : Chinese private educational institutions list financing in foreign market

	List time	Name	Listing place	Issue price	Main business	Appendix
1	2002/8/28	Chongqing Hailian academy	Australia	Backdoor listing	Higher education	Delisted in 2008
2	2006/6/1	Oriental epoch	Singapore	0.35 (SGD)	Fundamental education	Suspended in 2009/3/13 for financial fault
3	2006/9/7	New oriental	New York	15($)	Foreign language training	
4	2007/10/19	Noah Education Holdings Ltd.	New York	14($)	Fundamental education	
5	2007/10/29	Shuangwei education	NASDAQ	Backdoor listing	Distanced education	Delisted in 2012/5/2
6	2007/12/11	Hongcheng education	NASDAQ	10($)	Distanced education	
7	2008/1/29	Chinese intelligence services provider ATA exam company	NASDAQ	9.5($)	Artificial tests	
8	2008/7/30	Zhengbao education	New York	7($)	Distanced education	
9	2009/7/20	China education corporate	New York	Backdoor listing	Distanced education	Delisted in 2011/12/29
10	2010/2/2	Xiaoxiao of Zhejiang	Australia	0.25(AUD)	Infant education	
11	2010/8/5	Anbo education	New York	10($)	Vacation education	
12	2010/10/8	Huanqiu education	NASDAQ	10.5($)	Foreign language training	Bought by Peisheng in 2011/11/19
13	2010/10/20	Xueersi international education	New York	10($)	Fundamental education	Renamed as “bright future”in 2013/8/19
14	2010/11/2	Xueda education	New York	9.5($)	Fundamental education	
15	2014/4/3	Danei technology	NASDAQ	9($)	IT training	Referred as “china’s No.1 IT training education”

American Apollo Education Group was founded in 1976. In 1978, it became the first for-profit higher education institution accredited by the United States, mainly engaged in distance education, to provide students with 24-hour online service. Currently it has five branches and a higher education operating Company: University of Phoenix, Institute of financial planning, career development Institute, International University of Western Higher Education companies. Apollo Group is listed on NASDAQ in 1994, listed $ 14 per share, in 2011 achieved a revenue of $ 4.57 billion, as for October 12, 2011, market capitalization of about $ 7.02 billion, becoming the nation's largest for-profit higher education Group, also the world's largest listed education group[5].

Success and enterprise operation mode of American public financing of private education institutions will undoubtedly make our school private education institutions see the light, and get a lot of inspiration in the school system, it also brings a new educational philosophy for our private education institutions.

THE MEANING OF PUBLIC FINANCING OF PRIVATE EDUCATION INSTITUTIONS FOR CHINA

Sustainable development needs for China's private education institutions

According to the Ministry of Education, "2013 National Educational Development Statistics Bulletin," the data shows that in 2013, there are 149,000 private educational institutions of various types, an increase of 9,057 over the previous year; enrollment 14, 94.52 million, an increase of 0.4449 million over the previous year; online students of various educational types reach 40, 7831 million, an increase of 1.6729 million over the previous year. We can see the rapid development of private educational institutions, but at the same time, there are also many private educational institutions break down because of financing difficulties, funding strand. "2013 Sohu Education White Paper" mentioned, Yisi education

and Zhishan education collapsed because of funding fracture. In fact, every year, not only a lot of private education and training institutions have closed down due to lack of funds, there are many private colleges have closed down due to lack of funds. Therefore, if China's private education institution want to maintain stable development, there must be smooth financing channels. Many high-quality private education institutions have reached a certain size, if achieving public financing, because the abundant and continuous funding, they will become even stronger, faster and better and more smoothly to maintain sustainable development.

China's sustained and rapid economic development needs

Sustained and rapid economic development is inseparable from the various talents. American economist Edward. Fulton. Denison has analyzed the U.S. economic growth factors in detail, reaching the conclusion of the contribution of education to U.S. economic growth, in his book "U.S. economic growth factors and the choices we face,"[6] (1962), he said, the education levels of U.S. labor has raised (only years of formal education increases), contribute 23% to the 1929-1957 economic growth in the U.S. Japan's creator of "economic miracle", the famous economist, Diners Takeo Sato said: "Japan's post-war economic development and take-off is the result of education, technical knowledge accumulated and excellence in business and commercial factors.". The purpose of education, in addition to the development of culture, it also improves the ability of the people in a nation to work as well as the ability to manage a variety of matters, and increase national income. British classical economist Adam Smith in the "Wealth of Nations"[7](1776) pointed out: education consumes money, but the fee can be fixed to the learner, such costs could be reimbursed and earn profits.

From these studies, foreign scholars agree on that educational investment can generate economic benefits for individuals and society. If China wants to maintain a sustained and rapid economic development, we must vigorously develop education, and increase investment in education. On surface, the problem of private educational institutions achieving public financing, is the financing difficulties of private educational institutions, the substance is that it is the problem of China's economic development. Thus, public financing of private education institutions is the need of a sustained and rapid economic development.

Capital market investment demand

While China's Private Education Act declares that, private education belongs to the public welfare, but many private educational institutions, especially private education and training institutions, it is an indisputable fact that those institutions are earning profit secretly. Some private educational institutions, in order to achieve profit as well as circumvent the policy risk, will set up an investment group associated with education, the educational institution becomes its affiliated investment institutions. Some private educational institutions have a certain profitability but lack of development funds, these private education institutions are destined to be the target of some of the investment institutions. For example, in 2007, Zhuoyue education has earned $ 8,000,000 investment from Shenzhen Daxin; Huayu international Education Group also received massive investment from SAIF.in 2006, Anbo education received $ 10 million investment from the Fuchuang. If private educational institutions can list finance in public, it can both satisfy the needs of capital markets and maintain continuity of its financing. Of course, if the conditions are mature, if private education institutions can achieve list financing in the domestic market, it will be a good news for China's capital market. It is going to be a historic innovation in the stock market, and also achieve "education sector" in true sense.

KEY ELEMENTS OF PRIVATE EDUCATIONAL INSTITUTIONS LIST FINANCE IN THE DOMESTIC MARKET

There are many factors influenced the listing of private educational institutions, the most important factors include, the cost of running private educational institutions, the competition among private educational institutions, the development of public education institutions, national policies, enrollment of private educational institutions, financing difficulties and so on. So which factor is the most critical factor? We explain the structural model approach to identify the key factors. Interpretative Structural Modeling (ISM) is a way to analyze the complex issues related to social and economic systems and development proposed by American professor J. Fairbanks in 1973. It is characterized by dividing the complex system into several subsystems (elements), taking advantage of people's practical experience and knowledge, and with the help of computer, a multi-level system of hierarchical structure model will eventually be formed. It can turnobscure thinking and ideas into intuitive view model with a clear relationship. There are many factors influencing the listing of private educational institutions in the domestic factors listed, also between the various factors influence each other. We can identify the key factor through the using of ISM, as follows:

List all the factors

S_1 : the cost of running private educational institutions

S_2 : competition among private educational institutions

S_3 : the development of public education institutions

S_4 : national policies

S_5 : enrollment of private educational institutions

S_6 : financing difficulties

Draw inter-relationship between the factors as TABLE 2

1) if Si affect Sj, then it is 1, if not, then it is 0 (i, j=1, 2, …, 6)
2) as to the interrelated factors, name the dominant factors as the influencing factor.
3) Self-influence is 0

TABLE 2 : Inter-relationship between the factors

	S_1	S_2	S_3	S_4	S_5	S_6
S_1	0	0	0	0	1	0
S_2	1	0	0	0	1	1
S_3	0	1	0	0	1	0
S_4	0	1	1	0	1	1
S_5	0	0	0	0	0	0
S_6	0	1	0	0	1	0

Building of Adjacency matrix

S_1 S_2 S_3 S_4 S_5 S_6

$$A=[a_{ij}]_{6\times 6}=\begin{matrix}S_1\\S_2\\S_3\\S_4\\S_5\\S_6\end{matrix}\begin{bmatrix}0&0&0&0&1&0\\1&0&0&0&1&1\\0&1&0&0&1&0\\0&1&1&0&1&1\\0&0&0&0&0&0\\0&1&0&0&1&0\end{bmatrix}$$

Building of reachable matrix

$A_1=A+I$ $A_2=(A+I)_2$ $A_n=(A+I)_n$, n is the order of the matrix.

When $A_1\neq A_2\neq\ldots$Ar-1= Ar , r≤n-1, R is the reachable matrix.

Using Boolean algebra rules, namely, 0+0=0, 0+1=1, 1+0=1, 1+1=1, 0×0=0, 0×1=0, 1×0=0, 1×1=1

$$A_1=A+I=\begin{bmatrix}0&0&0&0&1&0\\1&0&0&0&1&1\\0&1&0&0&1&0\\0&1&1&0&1&1\\0&0&0&0&0&0\\0&1&0&0&1&0\end{bmatrix}+\begin{bmatrix}1&0&0&0&0&0\\0&1&0&0&0&0\\0&0&1&0&0&0\\0&0&0&1&0&0\\0&0&0&0&1&0\\0&0&0&0&0&1\end{bmatrix}=\begin{bmatrix}1&0&0&0&1&0\\1&1&0&0&1&1\\0&1&1&0&1&0\\0&1&1&1&1&1\\0&0&0&0&1&0\\0&1&0&0&1&1\end{bmatrix}$$

$$A_2=(A+I)_2=\begin{bmatrix}1&0&0&0&1&0\\1&1&0&0&1&1\\0&1&1&0&1&0\\0&1&1&1&1&1\\0&0&0&0&1&0\\0&1&0&0&1&1\end{bmatrix}\begin{bmatrix}1&0&0&0&1&0\\1&1&0&0&1&1\\0&1&1&0&1&0\\0&1&1&1&1&1\\0&0&0&0&1&0\\0&1&0&0&1&1\end{bmatrix}=\begin{bmatrix}1&0&0&0&1&0\\1&1&0&0&1&1\\1&1&1&0&1&1\\1&1&1&1&1&1\\0&0&0&0&1&0\\1&1&0&0&1&1\end{bmatrix}$$

$$A_3=(A+I)_3=\begin{bmatrix}1&0&0&0&1&0\\1&1&0&0&1&1\\1&1&1&0&1&1\\1&1&1&1&1&1\\0&0&0&0&1&0\\1&1&0&0&1&1\end{bmatrix}\begin{bmatrix}1&0&0&0&1&0\\1&1&0&0&1&1\\0&1&1&0&1&0\\0&1&1&1&1&1\\0&0&0&0&1&0\\0&1&0&0&1&1\end{bmatrix}=\begin{bmatrix}1&0&0&0&1&0\\1&1&0&0&1&1\\1&1&1&0&1&1\\1&1&1&1&1&1\\0&0&0&0&1&0\\1&1&0&0&1&1\end{bmatrix}$$

Thus $A_2=A_3$, reachable matrix $R=A_2=A_3=$

$$\begin{matrix}S_1\\S_2\\S_3\\S_4\\S_5\\S_6\end{matrix}\begin{bmatrix}1&0&0&0&1&0\\1&1&0&0&1&1\\1&1&1&0&1&1\\1&1&1&1&1&1\\0&0&0&0&1&0\\1&1&0&0&1&1\end{bmatrix}$$

Inter-stage division

Relevant definition as follows:

Reachable set R（Si）. The set which element Si can reach is defined as the reachable set of Si, noted as R（Si）. R（Si）consists of the corresponding Si line element of the matrix with the value of 1.

Antecedent set A（Si）. We collect the element which are reaching the Si set, define this set as antecedent set, or preceding set, noted as A（Si）. A（Si）consists of the corresponding Si row element of the matrix with the value of 1.

3, the common set. Elements of the definition of all the Si elements of the set up collection R（Si）and its antecedents collection of A（Si）for the first set of the intersection of A（Si）is a common set represented by T: $T=\left\{Si\in N\left|R(Si)\cap A(Si)=A(Si)\right.\right\}$

4, the maximum set of elements of the collection. One of the most advanced elements of a collection of multi-level hierarchical structure means that no further advanced than the other elements can be reached, it sets up R（Si）only contains its own set of features, but the antecedent focus, in addition to containing the elements Si themselves in addition, it can reach further comprises a lower element.

5, inter-stage division. Inter-stage all elements of the system is divided in order to reach the criteria matrix is divided into different levels (layers) times. First you can use to define the most advanced set of factors to determine the most advanced multi-level structure. After identify the most advanced elements, you can reach it from scratch to a corresponding matrix of rows and columns. Then, again looking up from the rest of the matrix elements of the new highest, and so on, we can identify the most senior levels of the elements contained in the collection, if using L1, L2..., Lk represents the class from top to bottom times, the number K of sub-stage system is divided between the level L (n) represented by the following formula: $L(n)=\left[L_1,L_{2,\cdots},L_K\right]$.

According to reachable matrix, statistics are obtained as following TABLE 3:

TABLE 3 : Inter-stage division

Element	R（Si）	A（Si）	R（Si）∩ A（Si）
1	1，5	1，2，3，4，6	1
2	1，2，5，6	2，3，4，6	2，6
3	1，2，3，5，6	3，4	3
4	1，2，3，4，5，6	4	4
5	5	1，2，3，4，5，6	5
6	1，2，5，6	2，3，4，6	2，6

Based on the above TABLE 3, the supreme element is $L_1=\{5\}$. Subtracting S5 from the reachable matrix, then divide for level-2 shown in TABLE 4:

TABLE 4 : Level-2 division

Element	R (Si)	A (Si)	R (Si) ∩ A (Si)
1	1	1, 2, 3, 4, 6	1
2	1, 2, 6	2, 3, 4, 6	2, 6
3	1, 2, 3, 6	3, 4	3
4	1, 2, 3, 4, 6	4	4
6	1, 2, 6	2, 3, 4, 6	2, 6

Based on the above TABLE 4, the supreme element is $L_2 = \{1\}$. Subtracting S1 from the reachable matrix, then divide for level-3:

TABLE 5 : Level-3 division

Element	R (Si)	A (Si)	R (Si) ∩ A (Si)
2	2, 6	2, 3, 4, 6	2, 6
3	2, 3, 6	3, 4	3
4	2, 3, 4, 6	4	4
6	2, 6	2, 3, 4, 6	2, 6

Based on the above TABLE 5, the supreme element is $L_3 = \{2,6\}$. Subtracting S2, S6 from the reachable matrix, then divide for level-4:

TABLE 6 : Level-4 division

Element	R (Si)	A (Si)	R (Si) ∩ A (Si)
3	3	3, 4	3
4	3, 4	4	4

Based on the above TABLE 6, the supreme element is $L_4 = \{3\}$. Subtracting S3, from the reachable matrix, then divide for level-5.

TABLE 7 : Level-5 division

Element	R (Si)	A (Si)	R (Si) ∩ A (Si)
4	4	4	4

Based on above TABLE 7, the level-5 element of the matrix is $L_5 = \{4\}$.

So, after 5 level division, we divide the six element of the matrix into 5 levels: $L = [L_1, L_2, L_3, L_4, L_5]$. We obtained the reachable matrix R_1 with order through inter-stage division.

$$
R_1 = \begin{array}{c} \\ s_5 \\ s_1 \\ s_2 \\ s_6 \\ s_3 \\ s_4 \end{array}
\begin{array}{c}
\begin{array}{cccccc} s_5 & s_1 & s_2 & s_6 & s_3 & s_4 \end{array} \\
\begin{bmatrix}
1 & 0 & 0 & 0 & 0 & 0 \\
1 & 1 & 0 & 0 & 0 & 0 \\
1 & 1 & 1 & 1 & 0 & 0 \\
1 & 1 & 1 & 1 & 0 & 0 \\
1 & 1 & 1 & 1 & 1 & 0 \\
1 & 1 & 1 & 1 & 1 & 1
\end{bmatrix}
\end{array}
$$

Strongly connected block partition

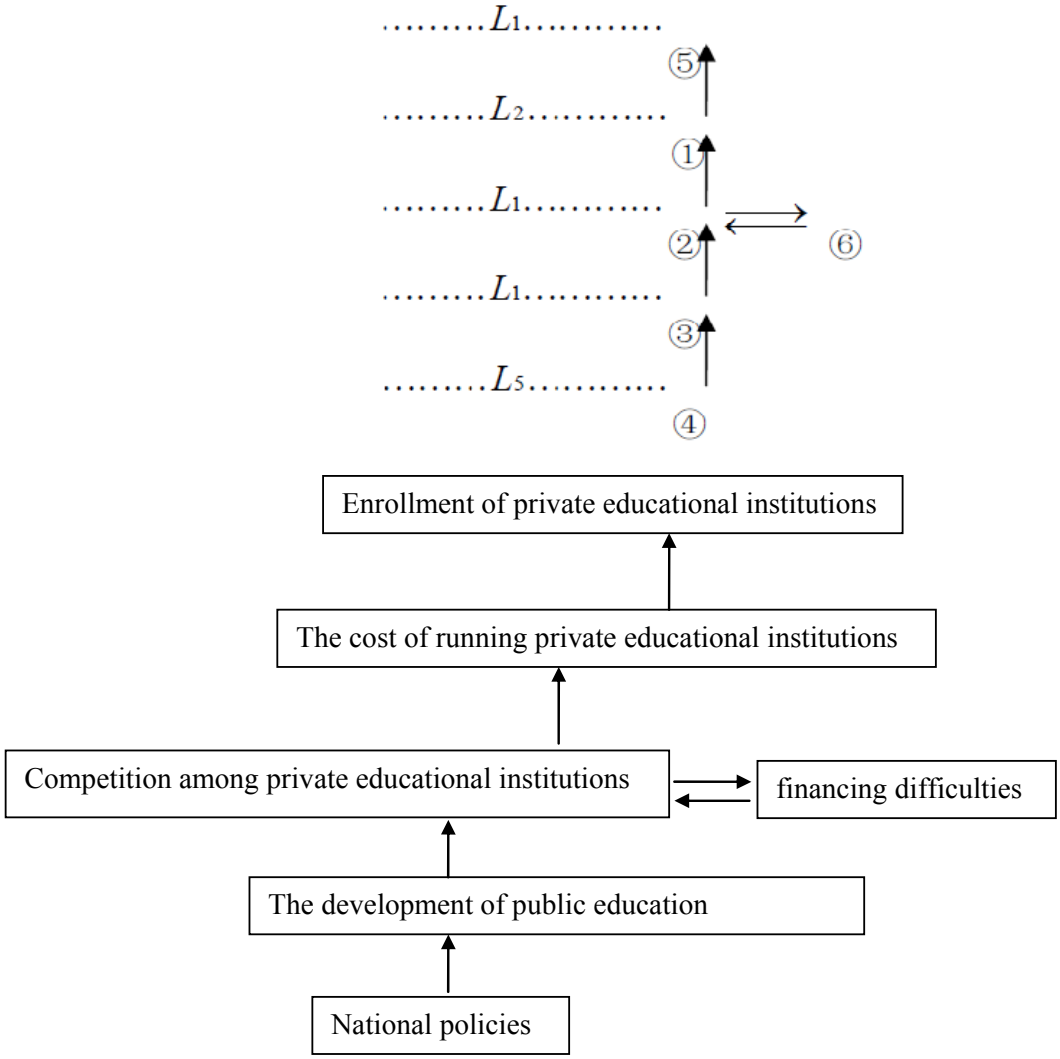
After the inter-stage division, elements in the same zone is called as the strongly connected block. For example, $\{2,6\}$.

Cut reachable matrix

Due to the presence of strongly connected block elements, and its constituent elements are up to each other and each other first, they constitute a loop. As can be seen in the reachability matrix R_1, the corresponding elements in exactly the same elements S_2, S_6 of Level 3 rows and columns, so just choose one to represent the elements can be. Currently selected S_6 **a**s the representative elements get sorted reduced reachability matrix R '.

$$R' = \begin{array}{c} \\ S_5 \\ S_1 \\ S_2 \\ S_3 \\ S_4 \end{array} \begin{array}{c} \begin{array}{ccccc} S_5 & S_1 & S_2 & S_3 & S_4 \end{array} \\ \begin{bmatrix} 1 & 0 & 0 & 0 & 0 \\ 1 & 1 & 0 & 0 & 0 \\ 1 & 1 & 1 & 0 & 0 \\ 1 & 1 & 1 & 1 & 0 \\ 1 & 1 & 1 & 1 & 1 \end{bmatrix} \end{array}$$

Structure model



Analyzing the structure model based on the explanation

Based on the explaining structure model, the bottom element is the national policy, that is to say, though there are many factors affecting the private educational institutions in China, the most important one is the national policies. Feasibility Analysis of China's recommendations and their domestic public financing of private education institutions

The limit to the listing of private educational institutions in the domestic market is mainly due to government policy. It is gratifying that our senior leadership has been aware of this problem and is ready to make changes on the relevant laws and regulations.

FEASIBILITY ANALYSIS OF CHINA'S RECOMMENDATIONS AND THEIR DOMESTIC PUBLIC FINANCING OF PRIVATE EDUCATION INSTITUTIONS

The limit to the listing of private educational institutions in the domestic market is mainly due to government policy. It is gratifying that our senior leadership has been aware of this problem and is ready to make changes on the relevant laws and regulations.

In September 2013, the State Council Legislative Affairs Office published the "education law a package of amendments to the draft (draft)", asking comment from the public. It also is ready to modify "Education Law", "Higher Education Act", "Private Education Promotion Law". In the draft, the Article 25 of the "Education Law": "no organization or individual shall be held-for-profit schools and other educational institutions", has been changed to "to financial funds, donated funds to participate in school-sponsored or organized, or other educational institutions are not established as a for-profit organization "; the draft also add " private schools can choose to register as a non-profit or for-profit corporation " in the Article 18 of " Private Education Promotion Law "; it also deleted the " Running a successful private school deduction aside development Fund and other expenses necessary to extract in accordance with relevant state regulations, the investor can get a reasonable return from school balances " in the Article 51 of Private Education Promotion Law "[8]. This series of changes to laws and regulations, will establish the profitability of the private educational institutions. Then a number of high-quality private educational institutions will be recognized by investors, the biggest obstacle for public financing of private education institutions is cleared. In addition, the relevant stock market also has some subtle changes in policy. For example, in the Shanghai Stock Exchange, the classification of listed companies was amended, the "education" appears as a separate industry. In July 2013, the Shanghai government has also declared that "all for-profit education and training businesses can apply for qualification." Therefore, the policy on the private for-profit educational institutions and public financing has been open both from the point of Commission and from the education sector.

we should eliminate the influence of various obstacles for the listing of domestic private educational institutions, systematically design from the top, co-ordination involved in the legislative department, tax department, legal department, clearly define profit and nonprofit private educational institutions and conduct classified management, clearly define property rights of private educational institutions, and establish a fair competitive system of private educational institutions and public education institutions, improve the relevant policies of private educational institutions listed, accelerate the pace of private educational institutions domestic market financing as soon as possible our domestic market private educational institutions, private educational institutions for China to open up new areas and channels of financing, in order to better promote and accelerate the development and growth of private education in China.

SUMMARY

From the above analysis, China's private education institutions can receive more adequate funding for sustainable development through public financing. There are many successful experience of mature public financing of private education institution in foreign countries, which we can learn from. The domestic market has a strong feasibility and financing operability. At present, there is increasing demands in China for listing financing of private educational institutions on the domestic market, large domestic public financing of private education institutions is imperative.

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