

# ***Enterprise Responses to Industrial Policy Adjustments Based on Resource-based Theory***

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**Abstract:** This paper employs resource-based theory to investigate the strategies adopted by enterprises in response to significant changes in industrial policies. We select China's leading education and training industry player, New Oriental Education & Technology Group, as a case study to analyze a series of resource allocation adjustments taken in response to the major industry transformation in the education sector in 2021, brought about by the introduction of the "Double Reduction" policy. Using a combination of cross-sectional and longitudinal comparative analysis, we explore the strategies for resource allocation adjustments and innovation in the face of adverse industry policies. We categorize these response measures into three stages: "immediate response - strategic adjustments - transformational innovation," and analyze the changes in resource allocation. In conclusion, we provide general strategic recommendations for enterprises to navigate industrial policy adjustments, aiming to offer reference and guidance for managing policy risks and developing core competitive capabilities.

**Keywords:** Resource-Based Theory, Industrial Policy, Strategic Adjustments, "Double Reduction" Policy

## **1. THEORETICAL BACKGROUND**

As a mechanism of macroeconomic regulation, industrial policies influence enterprise decision-making regarding resource allocation by adjusting the external resources necessary for business operations. These resources include the business environment, distribution channels, financial support, and technological research and development. Consequently, industrial policies have a dynamic impact on a company's short-term and long-term development strategies, contingent upon the industry stage and changing market conditions. According to the Resource-Based Theory, when external resource supplies are significantly affected by policy adjustments, companies should realign their resource allocation based on their core resources and capabilities to achieve sustained competitive advantages.

Foreign scholars have extensively studied issues related to how enterprises acquire, develop, and transform resources. Since Barney J.B.'s introduction of the VRIN framework in 1991, the Resource-Based Theory has evolved into a comprehensive theoretical system. Barney emphasized that key resources enabling a company to maintain competitive advantages should possess value, rarity, inimitability, and non-substitutability, underscoring the importance of resource capabilities in

sustaining competitive advantages [1]. Peteraf, M. A. introduced the element of time, highlighting the need for companies to focus on resource dynamics and flexible resource allocation to adapt to ever-changing market environments [2]. Subsequently, scholars like Teece D. J. and Helfat C. E. shifted their focus to the theoretical perspective of dynamic capabilities, emphasizing the evolution of market resources and corporate capabilities. Helfat C. E. and Peteraf M. A. concentrated on the relationship between dynamic capabilities and innovation, scrutinizing the impact of managerial cognitive abilities on the formation and development of dynamic capabilities and proposing a microfoundations theory of dynamic capabilities based on cognitive abilities [3].

Domestic scholars have been investigating topics related to business model innovation and strategic transformation in the context of China's digital transformation, focusing on the localization of resource management methods. For instance, scholars like Xiao Jinghua and Li Wentao examined the role of intelligent manufacturing in driving strategic transformation from the perspective of resource-based transformation [4]. Li Yabing et al. combined institutional theory and the dynamic view of the Resource-Based Theory, employing empirical analysis to confirm the mediating role of institutional pressure through digital resource integration capabilities on business model innovation [5]. Zhang Guangsheng et al., through empirical analysis of traditional manufacturing industries, integrated the theory of planned behavior and the Resource-Based Theory, concluding that redundant resources positively regulate the relationship between managers' willingness for digital transformation and its realization [6].

While foreign scholars have made numerous supplements and refinements to the Resource-Based Theory, domestic scholars have applied the theory in local contexts, particularly in the backdrop of China's political and economic landscape. However, more in-depth research on innovation in enterprises under the Chinese political-economic context is needed. Additionally, a comprehensive exploration of the impact of digital transformation and business model innovation on modern enterprise digitization, in conjunction with contemporary knowledge systems, is essential to provide guidance for effective resource utilization by companies in the digital age.

## 2. ECONOMIC BACKGROUND

In 2020, the outbreak of the COVID-19 pandemic led to a surge in demand for online education in the market, prompting major educational enterprises to undergo significant rounds of financing. Capital inflow into the education and training industry was substantial. Up until the eve of the promulgation of the "Double Reduction" policy, the education and training sector had been experiencing sustained rapid growth. As an example, based on QuestMobile data, during the first quarter of 2021, education and learning apps held the largest share in the top 1000 apps with the highest compound growth rate.

The unregulated expansion of capital in the education and training industry raised concerns within the Chinese government. Issues such as capital manipulation of educational instruction and unhealthy competition among educational enterprises urgently needed to be addressed. In order to comprehensively regulate extracurricular training, return to the essence of education, and, at the same time, alleviate the burden on students and parents in the compulsory education stage, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council promulgated the "Double Reduction" policy in line with the spirit of the 19th National Congress. On April 26, 2021, the Ministry of Education issued a notice titled "Regarding Strengthening Homework Management in Compulsory Education Schools," which rigorously supervised the issue of extracurricular training institutions assigning homework to students, effectively avoiding "additional extracurricular burdens." On July 24, 2021, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council issued the "Opinions on Further Reducing the Homework Burden of Students in Compulsory

Education and the Burden of Extracurricular Training" (referred to as the "Double Reduction" policy). The "Opinions" proposed strengthening the supervision of extracurricular training, strict approval, normative behavior, and strict control of excessive capital inflow. It explicitly stated that "subject-based training institutions are not allowed to go public for financing, capitalization operations are strictly prohibited, and those in violation must undergo rectification and clearance." Simultaneously, it enhanced complementary governance and controlled the placement of training advertisements by mainstream media. On July 30, 2021, the Office of the Ministry of Education issued a notice titled "Regarding Further Clarification of the Scope of Extracurricular Training in Compulsory Education for Subject and Non-subject Categories," providing clarity on the subject and non-subject categories within compulsory education stage extracurricular training.

From the 19th meeting of the Central Comprehensive Deepening Reform Committee in April to the identification guidelines released by the Ministry of Education in November, the "Double Reduction" policy has introduced a comprehensive series of measures in the field of education. These measures include restrictions on capital entry, supervision of extracurricular training, and rectification of advertising media. Particularly, the policy's strict control measures regarding subject-based training at the K12 stage have undeniably had a profound impact on the education and training industry, which had already reached a massive scale.

### 3. RESEARCH METHODOLOGY

This study primarily adopts a case analysis approach with the aim of conducting an in-depth analysis of New Oriental Education & Technology Group's adjustments in internal and external resource allocation under the backdrop of the "Double Reduction" policy. By thoroughly examining changes in New Oriental's resource base, internal and external environments, and other factors, the research seeks to understand how the company responds to policy changes while maintaining its core competitive advantage. Various data collection methods are employed in this research. Publicly available documents related to New Oriental, such as annual reports, financial statements, press releases, and other materials, are analyzed. Additionally, in-depth interviews are conducted with employees of New Oriental to gain insights into the company's internal dynamics.

Subsequently, the collected data is organized and summarized. Various financial indicators are utilized for both cross-sectional and longitudinal comparisons. The Resource-Based Theory is applied to differentiate and categorize New Oriental's resources, including human resources, technological capabilities, brand reputation, and more. By comparing resource allocations before and after the introduction of the "Double Reduction" policy, the effectiveness of New Oriental's resource capability adjustments is assessed.

The limitations of this study primarily revolve around the selection of a single company as a case study, which restricts the generalizability of the results. Additionally, due to the unavailability of certain commercial information data, there are limitations in data collection and analysis.

### 4. ANALYSIS AND RESULT

#### 4.1. New Oriental's Adjustment Measures

##### 4.1.1. Immediate Response Phase

After the official announcement of the "Double Reduction" policy, the education and training industry experienced significant turbulence, with the stock prices of the three education giants suffering heavy losses. Good Future's stock plummeted by 70.47%, Gaotu Group by 63.36%, and New Oriental by 54.22%, resulting in a combined market value evaporation of 109.2 billion yuan. Within five months, New Oriental's Hong Kong-listed shares fell by as much as 90%, with a market value evaporation

exceeding 200 billion yuan. In response to the unfavorable industry policy, New Oriental reacted swiftly to the policy's content, implementing cuts and rectifications to businesses that did not conform to the policy. The focus of this phase of adjustment was on business cutbacks and brand management.

Despite heavy losses in the stock market, New Oriental provided a positive response immediately upon the policy's release, stating that it would strictly implement the relevant regulations and serve the national development agenda. In October 2021, New Oriental announced that it would terminate its mainland China K9 business by the end of November. Prior to this, New Oriental's brand, Dongfang Youbo, had already closed its K12 business completely. Unlike some other educational and training institutions, New Oriental acted decisively in refunding students. They provided unconditional refunds of prepaid tuition fees and ensured quick and convenient refund processes through various channels.

In contrast to companies like Gaotu and Xueersi, which faced scandals related to teacher disputes, New Oriental and its founder, Yu Minhong, received praise from netizens. First, New Oriental took a firm stance on the "Double Reduction" policy, actively and promptly fulfilling the responsibilities expected of a leading industry player. Second, the company's handling of refunds and layoffs was noteworthy. New Oriental had maintained a large amount of cash internally, which allowed them to avoid labor disputes and safeguard their excellent corporate reputation during the policy changes.

On November 4, 2021, the New Oriental official account published a WeChat article titled "When a Red Truck Drives into the Distance." As a result of the closure of 1500 teaching points at New Oriental campuses across the country, numerous new desks and chairs became redundant. Yu Minhong called on New Oriental campuses nationwide to donate these desks and chairs to primary and secondary schools in need. By November, New Oriental campuses nationwide had donated over 70,000 sets of desks and chairs. This act greatly enhanced New Oriental's corporate image in the eyes of the public. Despite facing an existential crisis, New Oriental continued to fulfill its social responsibility as a large corporation.

#### 4.1.2.Strategic Adjustment Phase

During the strategic adjustment phase, New Oriental continued to focus on the education sector and primarily used existing resources to expand related businesses. Based on their assessment of policies and the market, New Oriental decisively abandoned its K12-related businesses. However, the company still had a significant pool of internal resources to utilize, and external resources, such as channels and reputation, could support New Oriental's expansion into other services targeting primary and secondary school students. In addition to existing art, sports, and technology-related quality education training courses, New Oriental also expanded into new businesses such as childcare services, mind-expanding courses, and leisure and entertainment educational services for children and teenagers. From early childhood to middle school stages, from quality education to extracurricular expansion, New Oriental's education products for minors underwent a significant transformation, with a substantial change in business scope. A New Oriental subsidiary, Beijing Bilindongfang, began transitioning to explore online Chinese courses. In August 2021, Bilindongfang launched a new product, Bilin Chinese, which primarily offers Chinese language and culture learning courses for overseas Chinese children and teenagers. New Oriental, which had previously focused on teaching Chinese children foreign languages, creatively expanded into new overseas businesses.

The adult education and training industry, including civil service exam preparation, is not yet mature, and competition is relatively less intense. New Oriental had previously offered courses such as teacher qualification certificates, undergraduate degree attainment, and accounting exams. Before the announcement of the "Double Reduction" policy in 2021, New Oriental's industry fund had already invested in Daodan Education and Keguan Education in March and May, respectively. Daodan Education targeted public service exams, offering training services for civil servants, public

institutions, village officials, judicial police, and teachers, among others. Keguan Education had a similar service orientation, and its sub-brands included Keguan Bank Bang, Keguan Teachers, Keguan Civil Servants Exam, and Keguan Medical Exam. The large-scale investments in these two companies demonstrated New Oriental's commitment to the adult exam preparation sector and signaled its future strategic direction.

#### 4.1.3. Transformation and Innovation Phase

Compared to platforms like Zuo Ye Bang, Yuanfudao, and even newer entrants like Good Future, New Oriental lags behind in terms of technological innovation capabilities and technology resources. Especially in the context of "Double Reduction," New Oriental is considering shifting towards technology-based businesses. In October 2021, Beijing Siku Yunshu Software Technology Co., Ltd. was established with the aim of pioneering a technical path and developing tech-based products tailored for independent learning scenarios. Another company affiliated with New Oriental, OK Smart Education, plans to release a learning device with an AI learning engine that allows paid access to New Oriental's related services. In addition, New Oriental is actively investing in technology companies focused on video and imaging, possibly entering the digital new media industry. In February 2021, New Oriental made its first investment in the AI field with "Yingpu Technology." On July 29, New Oriental's Industry Fund led the way for animation, video, and presentation creation platform "Lai Hua", as well as an all-in-one video technology service provider "Baijiayun." In today's highly competitive innovation-focused market, New Oriental is making efforts to bridge its technological gap.

On the evening of November 7, 2021, Yu Minhong announced during a Douyin (TikTok) livestream that New Oriental plans to establish a large-scale agricultural platform, integrating upstream and downstream resources to help agricultural products find markets, in response to the rural revitalization initiative. On October 27, 2021, New Oriental registered "Dongfang Yuxuan Technology Co., Ltd.," which includes a business scope covering agricultural products, daily necessities, cosmetics, and even home appliances and digital products. On December 28, 2021, New Oriental launched "Dongfang Zhenxuan" and started conducting livestream e-commerce on Douyin. While it has produced popular anchors like Dong Yuhui, New Oriental's performance in this field is only average compared to many top anchors.

#### 4.2. Resource Adjustment Decisions by New Oriental

As a well-established educational and training institution with a 30-year history, New Oriental, with a market capitalization of up to \$16 billion, has undoubtedly cultivated significant core resource advantages. These resources can be broadly categorized into material resources, human resources, technological resources, channel resources, brand resources, financial resources, and, notably, the unique entrepreneurial spirit and managerial abilities of New Oriental's leadership. This paper will analyze the types of resources owned by New Oriental and their core competencies based on Barney.J.B's VRIN framework. It will also examine changes in resource allocation during its strategic adjustment process.

Among New Oriental's core resources, the "valuable" resources include material resources, such as numerous physical branch locations, teaching facilities, and educational materials, as well as technological resources, including online learning platforms, data analysis tools, artificial intelligence technology, and more. "Scarce" resources primarily consist of channel resources, encompassing a large number of physical stores, a new media matrix, numerous partners, and a database of user information. It also includes financial resources, which involve attracting investment capital, stock capital, and proprietary funds. The "difficult to replicate" resource is human resources, which include



the teaching team, management talent, and research and development personnel. The "irreplaceable" resources include brand resources, comprising brand reputation, culture, image, and recognition, and entrepreneurial spirit, which entails the decision-making and management capabilities of the executive team, as well as the outstanding innovative spirit, personal charisma, and public image of Yu Minhong.

In response to the policy and business cuts, New Oriental relinquished a significant portion of its material resources and human resources, transforming them into financial resources. They first terminated leases on nearly 1,500 teaching points, recouping the original costs of leased land and converting them into liquid capital. Additionally, they reduced labor costs by laying off 40,000 employees to prepare for investing in other production factors. However, they retained their core management team, highly competent core teaching team, and unaffected course instructors. In the strategic adjustment phase, New Oriental utilized its existing channels, technology, and high-quality teaching staff to expand its offerings in quality education and adult education. This adjustment aimed to make the most of existing resources and minimize the resource consumption brought about by the transition. According to data from Wind, New Oriental has adopted a more conservative approach to fundraising and investment compared to companies like TAL Education Group and Gaotu Group. New Oriental's total fundraising and debt ratio are lower than those of other leading educational groups. Strong capital resources and stable cash flow support New Oriental's efforts to experiment with multiple transformation directions, including agriculture, technology, and internet media, following the formal implementation of the "Double Reduction" policy.

However, for innovation in new business models, New Oriental requires more resource support. The effectiveness of live streaming e-commerce still depends on the public's recognition and trust in the brand and individuals such as Yu Minhong or other teachers. New Oriental has effectively utilized its brand resource advantage, swiftly entering the low-barrier emerging industry of live streaming e-commerce. Yu Minhong personally engaged in live streaming, which indeed brought a turnaround for New Oriental, which was operating in a challenging environment. Nevertheless, reliance on brand resources and personal reputation alone may not lead to sustainable development of the e-commerce business. To ensure the sustainable growth of e-commerce, New Oriental needs to acquire more resources or utilize its existing resources for developing the cultural industry.

## 5. CONCLUSION

This article analyzes the strategic adjustment and resource optimization of New Oriental Education & Technology Group under the "Double Reduction" policy through the theory of resource foundation, and examines the effects of business adjustment. The results show that, under the background of policy changes, New Oriental actively responded to policy changes, reconfigured internal and external resources, expanded other businesses in the original field, and attempted to transform towards e-commerce. However, there is still a lack of many key resources for e-commerce, so it is necessary to enhance core competitiveness in terms of technology, channels, human resources, and organization.

Therefore, this article proposes three suggestions:

First, enterprises need to actively respond to policy changes, adjust their business according to policies, and reconfigure resources.

Second, enterprises need to actively explore innovative models, not only innovating other businesses in existing fields but also attempting cross-field innovation.

Finally, enterprises need to fully develop core resource advantages, identify, develop, and utilize core resource advantages, which are the key factors for enterprises to maintain core competitiveness in the market.

This article provides insights for Chinese enterprises to respond to policy changes in the digital economy background, and provides suggestions for enterprises to enhance core competitiveness from three aspects: resource optimization configuration, business model innovation, and core resource advantage development, in order to achieve sustainable development.

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