

High-Quality Development of China's Private Higher Education Institutions from the Perspective of Business Model Innovation

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Abstract: China's private higher education institutions (PHEIs) have moved from expansion into consolidation. Their difficulties are usually analyzed through pedagogy, governance, or educational finance, leaving unexamined the commercial architecture that determines whether a self-funded campus remains solvent. This article applies the Wei-Zhu framework, which defines a business model as the transaction structure among stakeholders and decomposes it into six elements. Drawing on thirty-one interviews and documentary analysis across ten PHEIs in Wuhan during 2025, it reconstructs and compares each case. Four weaknesses recur: imitative positioning, a business system that treats employers as recipients, a profit model dependent on tuition alone, and a cash-flow structure mismatched to the investment cycle. Three pathways follow, concerning transaction subjects, modes, and pricing.

Keywords: Private higher education institutions; Business model innovation; Wei-Zhu six-element model; High-quality development

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1. Introduction

At the end of 2024, China had 803 private higher education institutions (PHEIs), a quarter of all universities and colleges, teaching 10.52 million students, or 27.04 percent of the national total ^[1]. Private institutions carry roughly a third of higher education enrollment worldwide ^[2]. The legal framework has stabilized alongside the numbers: the 2016 amendment of the Private Education Promotion Law divided institutions into for-profit and non-profit ^[3], and the revised Implementation Regulations of 2021 tightened the rules on sponsor changes and group operation ^[4].

The sector's position is nonetheless more precarious than enrollment suggests. The college-age cohort has begun to contract, competitors have multiplied, and the transformation of independent colleges has forced many campuses to build a brand of their own after years of borrowing one. Where the sponsor is a company with obligations elsewhere, difficulties there now pass through to the campus.

What distinguishes a PHEI from a public university is not its educational purpose but its financing; the public/private distinction has never mapped neatly onto ownership ^[5]. A PHEI raises its own funds and absorbs its own losses, so the structure through which it transacts with students, staff, employers, government and its sponsor determines whether it survives a decline in enrollment. Chinese scholarship has concentrated on governance, funding and quality assurance, treating the institution as an educational organization that happens to be privately funded. This study asks how the business model of a PHEI can be described systematically, which weaknesses recur across a regional market, and what redesign follows.

2. Literature review

The business model construct entered management research through work on electronic commerce. Amit and Zott ^[6] argued that value there arises from the design of the transaction architecture rather than from the product alone, and Chesbrough and Rosenbloom ^[7] showed that the same technology yields different returns depending on the model through which it reaches a market. Teece ^[8] formulated the construct generally: a model articulates how an organization creates value and captures part of it. Attention then shifted to the interdependence of components ^[9], and business model innovation became a distinct object of study, though Foss and Saebi ^[10] found that the literature is conceptually loose, a judgment broader reviews share ^[11]. Almost all of this work concerns firms in product markets, where price is a decision variable, and exit is unremarkable.

Research abroad has long taken the sector's commercial character seriously. Ruch ^[12] traced the growth of American for-profit universities to narrow program focus, curricula tied to labor demand, dedicated placement functions, and expansion by acquisition. Levy ^[2] notes that much private provision is demand-absorbing, entering where public capacity is insufficient rather than competing at the top of the status hierarchy. Chinese scholarship, by contrast, treats the institution as an educational entity and the transaction structure connecting it to its stakeholders as background.

The two literatures rarely meet, and the consequence is practical: remedies proposed for struggling institutions tend to be pedagogical or administrative, addressing symptoms of a structural problem. The Wei-Zhu framework suits this gap because its unit of analysis is the transaction rather than the product market, which keeps its questions meaningful for an organization that cannot compete on price and does not distribute profit.

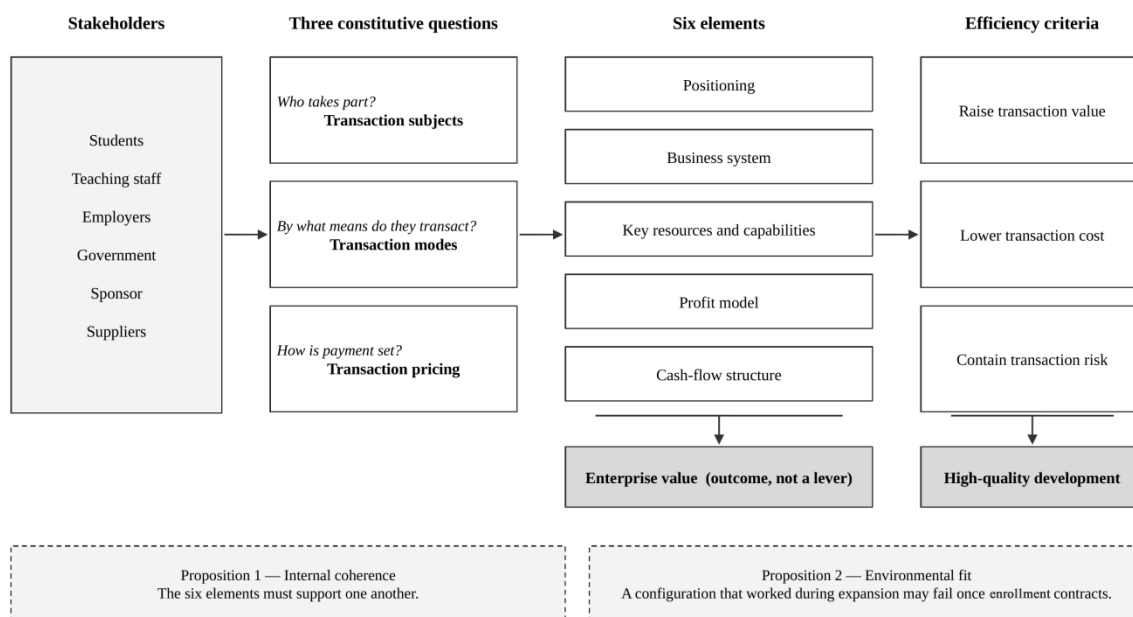
3. Theoretical framework

Wei *et al.* ^[13] defined a business model as the transaction structure among an organization and its stakeholders. Three questions follow: who takes part, by what means do the parties transact, and how is payment determined? Six elements express the answer: positioning, the business system, key resources and capabilities, the profit model, the cash-flow structure, and enterprise value. The last is an outcome rather than an independent lever, so five elements are available for design (**Figure 1**).

Translated into higher education, positioning is the need the institution undertakes to meet, and for whom. The business system is the configuration of roles through which teaching, recruitment and placement are carried out, including which parties are inside the arrangement and which are merely adjacent. Key resources and capabilities are the assets making that positioning credible: staff, laboratories, accreditation status, employer relationships and reputation. The profit model specifies where receipts come from, and the cash-flow structure

specifies their timing across the investment cycle.

The framework also supplies evaluation criteria: a well-designed structure raises the value created in each transaction, lowers the cost of transacting, and reduces the risk borne by the parties ^{[13],[14]}. Two propositions follow. Elements must cohere, since a positioning promising applied education is not credible without the staff and employer relationships to deliver it. And coherence is relative to the environment, so a configuration that worked while enrollment grew may fail once that assumption does ^[10].



Source: adapted from [13, 14]

Figure 1. The Wei-Zhu framework applied to a private higher education institution

4. Research design

The study uses a multiple-case design to elaborate an existing framework rather than to test hypotheses; case comparison suits a configuration whose components cannot be meaningfully separated ^[15]. Wuhan was selected because it is one of China's largest higher education centers, contains the full range of private institutional types, and, as a central-China provincial capital, is neither the most nor the least favorable environment for private provision. Ten institutions were selected purposively to maximize variation on type, sponsor and size, and are anonymized as Cases A to J (**Table 1**).

Table 1. Profile of the ten cases

Case	Institutional type	Sponsor type	Enrollment
A	Undergraduate (transformed)	Corporate group	≈16,000
B	Undergraduate (transformed)	Corporate group	≈14,500
C	Undergraduate (transformed)	Education foundation	≈11,000
D	Undergraduate (transformed)	Individual founder	≈15,000
E	Undergraduate (independently founded)	Individual founder	≈21,000
F	Undergraduate (independently founded)	Corporate group	≈18,000
G	Vocational	Corporate group	≈9,500
H	Vocational	Corporate group	≈8,000
I	Vocational	Individual founder	≈6,500
J	Vocational	Education foundation	≈7,000

Fieldwork ran through 2025. Thirty-one semi-structured interviews were completed, three or four at each institution, with presidents or vice-presidents, directors of admissions and student employment, finance directors and deans of teaching; interviews averaged seventy-five minutes and were recorded and transcribed with permission. The protocol was organized around the six elements. Documentary sources comprised charters, admission plans, graduate employment quality reports, sponsor disclosures and program approval records.

Within each case, the transaction structure was reconstructed and expressed in the six elements; across cases, reconstructions were compared element by element. Coding moved from first-order categories close to informants' language toward second-order themes ^[16]. Two researchers coded independently, and no further themes emerged after the eighth case. Claims about finance and enrollment were checked against documents, reconstructions were returned to a senior administrator at each institution, and negative cases were retained rather than set aside. The full protocol and coding scheme are available from the author.

5. Findings

The six elements are reported in turn, and **Table 2** summarizes the dominant pattern for each and its consequence for transaction efficiency.

Table 2. Six-element diagnosis across the sample

Element	Dominant pattern in the sample	Consequence for transaction efficiency
Positioning	Imitation of nearby public universities; ambition toward comprehensiveness	Low transaction value; competition reduced to score and price
Business system	Linear delivery; employers adjacent rather than inside	High matching cost borne by both institution and employer
Key resources	Young and part-time staff; assets concentrated in land and buildings	Capability does not support the stated positioning
Profit model	Tuition dominant; ancillary income marginal	Revenue linear in enrollment; no buffer against shortfall
Cash-flow structure	Front-loaded capital outlay against slow, seasonal inflow	Financing risk concentrated on sponsor; risk unpriced
Enterprise value	Dependent on expected future enrollment	Value fragile once demographic expectation reverses

5.1. Positioning

In eight of the ten cases, the program catalog and the stated ambition were modeled on nearby public

universities rather than on a distinct segment of demand. Administrators described a trajectory toward comprehensiveness: adding disciplines, seeking higher-level degree authorization, raising the proportion of doctorally qualified staff. These ambitions define success where a private institution's endowment is weakest, and leave applicants no reason to prefer the institution beyond its admission threshold. Where an institution offers no distinguishing benefit, the only variables left in the transaction with a student are score and price, and price is regulated for non-profit institutions.

5.2. Business system

In most cases, the business system was linear: the institution recruited students, taught them, and delivered graduates to a market in which employers appeared only at the end. Employer involvement was concentrated in internship placement and in advisory committees whose curricular influence administrators described as limited. Information about employer requirements therefore reaches the curriculum late, while employers must screen and retrain graduates; the transaction carries a matching cost neither party is structured to reduce. Cases H and J departed from this pattern, both vocationally oriented institutions in which employers co-designed programs and supplied instructors, and in both the reported placement position was stronger.

5.3. Key resources and capabilities

Staffing followed a recognizable shape: a large body of teachers early in their careers, a smaller group of retired or part-time staff from public institutions, and thin representation in between. Contracts are short, research support limited, and mid-career turnover persistent. Land and buildings dominate the balance sheet, while laboratory investment met accreditation requirements rather than exceeding them. The significance lies in the relation to positioning: a comprehensive ambition requires research capability these institutions lack, an applied one requires practitioner staff and employer relationships most had not built.

5.4. Profit model

Tuition supplied the overwhelming majority of income in every case; continuing education, contracted training, technology services and donations together contributed a small share, in several cases negligible. Revenue is therefore a nearly linear function of enrollment, with no buffer. A shortfall against the admission plan becomes a budget shortfall within the same cycle, and because salaries and debt service are fixed in the short run, the adjustment falls on discretionary spending, which is largely what sustains teaching quality.

5.5. Cash-flow structure

Construction and equipment require large outlays at the start of the investment cycle, while tuition arrives in small, seasonally concentrated installments across a cohort's enrollment. Institutions carry an early financing requirement that the sponsor or debt must meet. Where the sponsor is a company with obligations elsewhere, the campus is exposed to a risk unrelated to education: administrators in five cases described sponsor-level pressure delaying capital projects, and in two it had reached ordinary operating expenditure. Risk flows in one direction and is not priced.

5.6. Enterprise value and configuration

Enterprise value rests almost entirely on expected future enrollment, and that expectation is weakening for

demographic reasons no institution can influence. The configuration that produced growth for two decades was consistent while enrollment could be assumed to rise; it is not consistent with the present environment. Cases H and J are instructive: neither had solved every problem, but in both the elements were mutually supporting, with a defined vocational positioning, employers inside the business system, staff recruited to match, and a revenue base including contracted training. Coherence, not any single element, distinguishes them.

6. Discussion: Three pathways for business model innovation

If the weaknesses are properties of the transaction structure, the remedies must be as well; the three dimensions of the definition indicate where to intervene (**Table 3**).

Table 3. The three pathways

Dimension	Pathway	Principal moves	Efficiency criterion
Transaction subjects	Bring employers inside	Co-designed programs; seconded practitioners; joint industry colleges; local government and alumni	Raises transaction value
Transaction modes	Share and scale	Consortium platforms for laboratories and courses; campus addition or acquisition after positioning is settled	Lowers transaction cost
Transaction pricing	Diversify receipts	Continuing education, certification, contracted training, technology services, foundations	Reduces risk, smooths timing

The first pathway changes who is inside the arrangement. The productive loop runs from employer requirements to teaching capability, to graduate competence, and back to employer willingness to engage. Closing it requires employers to participate rather than receive: co-designing programs, seconding practitioners, hosting substantive placements, and, at the strongest, co-investing through joint industry colleges. This is not a request for goodwill, since an employer that shapes program design lowers its own recruitment and retraining costs. Local government and alumni are further candidates.

The second pathway changes how the parties transact. Laboratories, course libraries and placement networks are expensive to build alone and cheap to share, so a consortium can reach a scale no member could reach individually. Scale itself is the second move; Ruch^[12] found acquisition central to American for-profit growth, and fixed costs in administration and accreditation spread across a larger base. The condition is sequence: scaling an incoherent model reproduces the incoherence at greater cost, and the 2021 Regulations constrain group operation more tightly than before.

The third pathway changes how receipts are determined. Brand recognition and student flow can support activity that tuition regulation does not reach: continuing and professional education, certification, contracted training, technology transfer and campus services. Education foundations offer a further channel. Diversification changes the timing of receipts as well as their volume and leaves the institution less exposed to a single admission cycle and to sponsor difficulty.

These pathways are not a menu. Adding employers without adjusting positioning produces partnerships that do not match what the institution claims to be, and diversifying revenue without the capability to deliver produces small loss-making units. What distinguishes a workable configuration is the fit among its parts^{[9],[10]}, so the sequence begins with positioning and turns to revenue and scale last.

7. Conclusion

The difficulties facing China's private higher education institutions are best understood as defects in transaction structure rather than as failures of teaching or administration. Applying the Wei-Zhu framework to ten institutions in Wuhan, the study found a recurring configuration: positioning modeled on the public sector, employers standing outside the business system, resources concentrated in property and junior staff, revenue drawn almost entirely from tuition, and investment front-loaded against a slow and seasonal inflow. That configuration was coherent while enrollment grew; it is not coherent now.

Theoretically, the study extends business model research into a regulated, quasi-public setting where customer segments and revenue streams fit poorly; practically, it supplies a diagnostic sequence institutions can apply to themselves. The sample covers one region, the evidence is managerial perception rather than audited performance, and the fieldwork spans a single year. A multi-province comparison, a quantitative test linking transaction cost to financial outcomes, and a longitudinal study of attempted redesign would each extend the argument.

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Disclosure statement

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