ISCTE Business School
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PEARSON'S EXPERIENCE IN CHINA – ACQUISITION ON GLOBAL EDUCATION: A PEDAGOGICAL CASE STUDY

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Project submitted as partial requirement for the conferral of

Master in Business Administration

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August, 2018

Acknowledgement

It has been a long process. Hereby, I am so grateful for the help, support and encouragement from everyone, including:

- Professor Ana Margarida Simaens, for her support and guidance every time when I was struggling. Without her guidance, I would not have been able to work things out.

- my family and friends. Thanks for their love and support so I can focus 100% on writing the thesis. Thanks for their encouragement when I was struggling.

- my former colleagues in GEDU who gave me insight and advice on the case.

- myself, for holding on balancing work and study.

Thank you, sincerely.

Abstract

Internationalization is an old but ever charming topic. Driven by multiple motives, companies expand themselves in countries outside their home markets via various modes of entry and expansion. Under whatever mode, results are mixed with the good and bad. In cross-border M&A in China, this turns out to be extremely true as risks can arise from every aspect, especially cultural differences.

This case study with pedagogical notes explores the factors affecting international expansion, the determinants for choosing market entry/expansion mode, the M&A process and risks frequently made, and the challenges in post-merger M&A integration and management. It focuses on related issues and topics on the cross-border M&A between Pearson, a big British international publishing and educational company, and GEDU, a small Chinese company.

Building on international business, this case analyzes the process of international expansion and its risks, which presents: 1) the proactive and reactive reasons for going international expansion; 2) the entry and expansion choices; 3) the external and internal factors influencing decision-making; 4) M&A process and risks; and 5) post-M&A risks/challenges in China. Also, the role of culture in cross-border M&A in China is discussed.

The case design and analysis of such a case aims to present a general framework about internationalization, market entry and expansion modes, benefits and challenges in choosing different modes; moreover, by selecting one specific foreign operation mode: cross-border M&A, it explores its risks and downfalls in international management in China.

Key words: Internationalization; market entry and expansion; cross-border M&A; M&A risks in China.

JEL Classification System:

- *M10 - General Business Administration*
- *M16 - International Business Administration*

Resumo

A internacionalização é um tópico antigo, mas sempre charmoso. Impulsionado por múltiplos motivos, as empresas expandem-se em países fora de seus mercados domésticos por meio de vários modos estrangeiros de entrada e expansão. Em qualquer modo, os resultados são misturados com o bom e o mau. Em cross-border M&A na China, isso se mostra extremamente verdadeiro, pois os riscos podem levantar-se de todos os aspectos, especialmente da diferença cultural.

Este caso com notas pedagógicas explora os fatores que afetam a expansão internacional, os determinantes escolhendo o modo de entrada / expansão do mercado, o processo de M&A e os riscos feitos, com frequência, e os desafios na integração e gestão de M&A. Concentra-se em questões e tópicos relacionados sobre cross-border M&A entre a Pearson, uma grande empresa britânica de publicação internacional e educacional, e a GEDU, uma pequena empresa chinesa desalistada.

Com base em negócios internacionais, este caso analisa o processo de expansão e riscos internacionais, que apresenta: 1) as razões pró-ativas e reativas para a expansão internacional; 2) as escolhas de entrada e expansão; 3) os fatores externos e internos que influenciam a tomada de decisões; 4) processo e riscos de M&A; 5) riscos / desafios de post-M&A na China. Além disso, o papel da cultura em cross-border M&A na China é discutido.

A concepção e a análise que utilizam esse caso visam apresentar um quadro geral sobre a internacionalização, modos de entrada e expansão no mercado, benefícios e desafios na escolha de diferentes modos; além disso, selecionando um modo específico de operação estrangeira: cross-border M&A, que explora seus riscos e quedas na gestão internacional na China.

Palavras-chave: Internacionalização; entrada e expansão do mercado; cross-border M&A; riscos de M&A na China

Sistema de classificação JEL:

- *M10 - General Business Administration*
- *M16 - International Business Administration*

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List of Abbreviations

FDI - Foreign Direct Investment

GDP - Gross Domestic Product

GEDU - Global Education & Technology Group Limited

IPO - Initial Public Offering

JV - Joint Ventures

M&A - Mergers & Acquisitions

PTE - Pearson Test of English

1 Case

1.1 Problem Identification

Firstly founded as a construction company in 1840s, then acting as a publishing and educational company since 1920s and later shifting its focus only on education in 2015, Pearson is now a British educational company with presence in 70 countries and more than 32,000 employees around the globe, providing educational products and services (content, assessment and qualifications) to teachers, institutions and professional work places (Pearson, 2018). To survive, grow and prosper is said to any firm's first and basic goal (Grant, 2012). Facing new opportunities and challenges in the past decade, Pearson has made huge effort in transforming itself in this gradually digitalized world, including the massive expansion into more different countries, especially growth markets like China, India, Brazil, and South Africa.

Strategies and ways to enter and expand into foreign markets are various, with or without Foreign Direct investment (FDI). Among all the choices like exporting, licencing/franchising, joint ventures (JV), mergers&acquisitions (M&A), greenfield investment, each of which has different advantages and disadvantages, the decision must be made considering multi-faceted factors.

China, since the promulgation of reform and opening policy and adoption of market-based economy, has attracted and accumulated foreign direct investment (FDI) in exponential figure due to its booming economy and market potential. Statistics show that the figures have continued to climb to around $1300 million in 2017 in the past decade (Trading economics, 2018). One of the methods to conduct FDI for foreign companies to play in Chinese markets is to merger and acquire Chinese companies. However, the performance of multinationals managing in the world's second largest economy is mixed (Yu, et al., 2016), as M&A in China carries not only great profits but also huge risks. Pearson is no exception in its road to expansion in China with the acquisition of three Chinese companies.

This pedagogical case study takes Pearson's expansion and its acquisition of one Chinese educational company, Global Education & Technology Group (GEDU), as an example to talks about foreign market entry and expansion, and M&A risks in China.

1.2 The Acquirer – Pearson

1.2.1 Pearson's Development and Expansion

Pearson plc was founded as a construction company by an English man named Samuel Pearson in 1844. He later expanded by the acquisition of publishing, information and educational companies and reached today's size with a presence in 70 countries, hiring more than 32,000 employees (Pearson, 2018).

Since the 1920s, Pearson has diversified itself via acquisitions and divestitures. With the 100% takeover of Financial Times in 1957, 50% of The Economist in the same year, Longman in 1968, Penguin in 1970, Ladybird Books in 1972, some other TV companies, broadcasters and media companies during 1980s and 1990s, and many others in later years, Pearson had shifted completely from a construction company into an important player in the publishing and information economy. Later in the 2000s, the acquisition of different education-related companies like HarperCollins, Prentice Hall Textbooks, Addison-Wesley led Pearson into an essential area of business activities: education (Pearson, 2018; Companyhistories, 2018).

By the time before the Financial Crisis in 2008, Pearson had been set itself with fame due to its great performance of business activities in around the world. Pearson plc's revenues were from its three pillars of business: Pearson Education, Penguin Group and Financial Times Group until the year 2015 (Pearson, 2016).

Among these businesses, Financial Times Group provided information about everything related to business and finance online and in printed versions globally, including Financial Times, FT.com, Merger-market, Interactive Data, FTSE index business, and The Economist Group. Penguin Group provided services in the publishing sector, including imprints like Penguin and Berkley, while Pearson Education provides products and services in all educational areas for teachers, institutions, schools, universities, learning centers and other related areas (Pearson, 2011).

Compared with the other business, Pearson Education has always been the biggest revenue contributor. Financial figures shows that among all the sales of Pearson's three main business, the part from Education was 65%, 67%, 74%, 75%, 76% and 84% in 2007, 2008, 2009, 2010, 2011 and 2012 respectively, compared to other two pillars of Pearson's business (Penguin

Group and Financial Times Group) during the years (Pearson, 2008; Pearson, 2009; Pearson, 2010; Pearson, 2011; Pearson, 2012; Pearson, 2013).

And, North America is the main region where most of the sales of education-related business came from. According to Pearson's Financial reports, US has its biggest business and the business is mainly in Education, including services to schools, higher education and professional related business. In 2007, among all the 70 countries where Pearson operated, 63% of the sales were from the US; in 2008, 63%; in 2009, 65%; in 2010, 64%; in 2011, 60%; in 2012, 59% (Pearson, 2008; Pearson, 2009; Pearson, 2010; Pearson, 2011; Pearson, 2012; Pearson, 2013; Pearson, 2018).

Pearson has built up this strong cow for milking sales from expansion in the last decades with the acquisition of US educational providers, testing systems, and qualification assessors, including National Computer System in 2001, Meximerica Media and Knowledge Technology in 2004, AGS publishing in 2005, Promissor for measurement services and National Evaluation System for teachers' certification in 2006, Harcourt Assessment and Harcourt Education International, eCollege in 2007, GlobalEnglish Corporation in 2012 (Pearson, 2013).

1.2.2 Pearson's Performance, Strategy and Changes

Before 2009, Pearson had been doing good financially in its business with their long-lasting strategy focusing on four parts: content, technology and digital services, international expansion, and efficiency (Pearson, 2009).

However, the circumstances were slightly changing. In 2009 when its 2008-Annual-Report was released, strategy revealed concerns about the influence of the Financial Crisis, especially the aggressive downturn economy in developed countries like the UK, the US, and Europe, which raised some risks in sales and reduction in market share. Financial Times Group had seen decline by 3% in advertising, its main source of sales (Pearson, 2009). At the same time, other markets had attracted their attention as business in these countries when sales and profit in education business in countries other than the main North-America region doubled in the past few years. This figure in 2010 also showed 1% decline (Pearson, 2011).

Moreover, in the 2011 Annual Report, the financial figures showed that there was a decline from 64% in 2010 to 60% in 2011 in its biggest market: the US, as newer risks arose for Pearson in the US’s political environment (Pearson, 2012). Due to the fact that the US Common Core Standard Initiative launched in 2009 and gradually finalized in 2011, government in many states required to adopt this Standard tighten their educational budgets, and when Pearson proactively participated into the provision of services and assistance in the implementation of this initiative, there were much controversy against Pearson’s hand reaching to the education of the young generation of the United States (Pearson, 2010; Pearson, 2012).

Also, in 2011, Pearson officially admitted the huge negative impact of technology and digitalization (e.g. iPad, Kindle) on Pearson publishing and educational business, especially due to the great popularity of e-books around the world (Pearson, 2012).

Yet, situation in Pearson’s selected emerging markets had encouraging news. From 2009 to 2012, revenue in these countries had doubled, among which digital services contributed around $3bn (Pearson, 2013). According to IBIS Capital in 2012, the potential value of online education was estimated to as high as $91bn and would continue to grow rapidly (IBIS Capital, 2013).

Although Pearson has always valued the importance of technology and digitalization and international expansion in its CEO’s yearly strategy statement, they started to tilt the weight of focus to booming developing countries and digital education. In 2010, the Pearson 2009 Annual Report stated, “*particular emphasis on fast-growing markets in China, India, Africa and Latin America*.” (Pearson, 2010:13) and the 2010 Annual Report demonstrated strongly the gap in economic growth between developed countries whose economy was slow from recovery from Financial Crisis and developing ones with booming GDP, especially China being the second biggest economy and India’s growth (Pearson, 2011).

“*We expect to benefit from a series of powerful long-term global trends: increasing public and private spending on education (despite current pressures on public spending in developed markets); growing participation rates; the demand for assessment to provide measures of achievement; the growing technology infrastructure in educational institutions; and the rise of English as a global language”* (Pearson, 2011:20).

Numbers in 2011 showed that the amount in Pearson's acquisitions in the past five years had been reached £2.5bn, and most the acquisitions were on education companies outside its main stream Anglo-American markets, revealing a change in strategic directions. Until 2011, Pearson had stated itself "*now a truly international markets with market-leading businesses from China to India to Brazil to Southern Africa.* '*Emerging markets' last year added up to 11% of our sales – and 22% of our people (because we're generating rapid growth there and getting ready for more)"* (Pearson, 2011:12).

To name a few, such acquisition activities in emerging markets in those years include the takeover of education-related companies like:

- Maskew Miller Longman in South Africa in 2008;
- Longman Nigeria in Nigeria in 2008;
- Learning provide English language schools for children from 5 to 12 in China in 2008;
- Dell English, English language training center for people aged 15 to 35 in China in 2008;
- Wall Street English, English Language training institution for adults in China in 2009 and in 2010 Wall Street Institute who has presence in areas like the whole Asia, Middle East and Africa;
- TutorVista, online English tutoring platform and digital content and service provider to K-12 students in India in 2009 and 2011;
- Sistema Educacional Brasileiro, provider of school learning systems and other services, in Brazil in 2010;
- CTI Education Group in South Africa in 2010;
- Global Education and Technology Group, provider of English training in IELTS test and other certifications and qualifications, in China in 2011 (Pearson, 2009; Pearson, 2010; Pearson, 2011; Pearson, 2012).

1.2.3 Pearson Corporate Culture

As a big international company, Pearson promotes "*Always learning*" (Pearson, 2018). With a lot of subsidiaries and assets around the world, it designed its organization in very clear governance structure, with many layers of managers in charge of different business units, regions and products. Usually, the executive level decides (BBC, 2012).

Some people who have been working in the company are proud of working for Pearson because it offers good work and life balance, but there are also voices complaining about the organization is too bulky with too many mid-level managers who have slow pace in today fast changing business world (Indeed, 2018).

They define their values as "*brave, imaginative, decent and accountable"* (Pearson, 2017:6), as Figure 1 shows.

Figure 1*: Person's values*

Source: The Little guide to Pearson (Pearson, 2017:6)

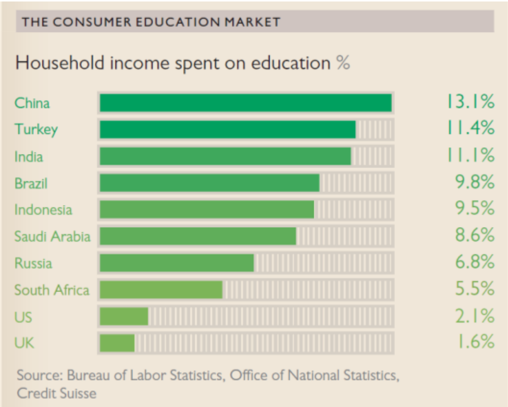
1.3 The Host Country and the Acquired

1.3.1 The Host Country: China

In the past decade, China's GDP has risen in a good and steady pace at around 1.8% in the past decade, making China among the countries with the fastest economic growth (Trading economics, 2018).

Chinese people have always valued the investment in Children's education. Compared to other countries, Graph 1 shows China has been the No.1 in the amount of spending on education (Pearson , 2013).

***Graph 1**: Household income spent on education*



Source: Pearson annual report and accounts 2012 (Pearson , 2013:10)

Also, among the education expenditure, the parents or the increasing middle class have seen English proficiency as an important part in Children's education, especially when these Children want to study abroad. To get an English qualification to meet overseas universities' enrolment requirements, these students usually take internationally qualified English tests like International English Language Testing System (IELTS) to evaluate their English proficiency. Statistics show that the number of IELTS exam candidates' number was 400,000 in 2012 and more than 300, 000 in 2013 (Iyiou, 2017).

In China, there are many private schools and learning centers providing training services and helping the IELTS exam candidate to get their qualification as quick as possible. The ones dominate in the markets in 2010 were XinDongFang and GEDU (Sina, 2010). GEDU ranked the first in brand awareness, followed by XinDongFang (Iyiou, 2017).

1.3.2 The Acquired: Global Education and Technology (GEDU)

Global Education & Technology Group Limited (GEDU) provides educational courses and related services in China. It offers products and services about test preparation and educational programs, services, and products in relation to the International English Language Testing System, iBT-TOEFL. Besides, it also has business in publishing about books and periodicals (Nasdaq, 2010).

The history of GEDU dated back to the year of 1997. In 1997, Zhang Yongqi and his wife were thinking about emigrating into Canada. To meet the immigration requirement for English language level, they needed to prove their language ability by taking IELTS. In the age when English training was not popular in China, they felt the great difficulty of receiving English training in taking standardized tests. They suddenly realized the business opportunity to provide such a demand from those who must take English test for emigration, study and other requirements. At that time, they opened a small learning center in Beijing China (Sina, 2011; Sohu, 2010).

In 2001, Zhang Yongqi, his wife Zhang Xiaodong and other of his closest friends officially founded Global Education. As an entrepreneur, Zhang devoted all his life into this start-up. As a young passionate entrepreneur and idealist, he wanted to provide the customers the best services and he knew the secret was teachers and employees. The company was run like a small family (some of them are actually related) (Money, 2012).

The brand was developed with awareness after years' nurturing by all the dedicated employees, especially the front-line training teachers who also devoted their time and effort in studying the testing pattern of a standardized English testing system and sharing the tricks of improving the test grade/band. These front-line teachers were the super star of the company as they contributed value to the learners/customers. Their effort in teaching made GEDU enjoy a good fame in IELTS exam taking candidates who spread good words mouth-by-mouth among their friends. This then again was used as the selling point for the company intensive marketing strategy, which ensure quality and value creation to the customers. The front-line teachers' professionality and reputation, together with the marketing strategy became the sword in the fierce competitive industry (Money, 2012).

After expansion over a few years, in 2006, it received investment from SAIF Partners, a big venture capital fund, and changed its name into Global Education & Technology Group Limited (GEDU). After the capital injection, GEDU continued its expansion around the whole China, opening learning centers directly branded and managed by the headquarters and at the same time franchising its brand to other similar and smaller learning centers (Sina, 2011). In 2010, GEDU had a company business network comprised 66 directly operated and 226 franchised learning centers (Nasdaq, 2010). For those franchisees, usually they had close guanxi/relationship with local educational authorities and public-school deans, whom become the source for exclusive advertisement in local markets (Money, 2012).

In October of 2010, it went public in Nasdaq and during which time, its brand awareness was 54.4% compared to its Competitor XDF's 16.5% and market share reached 60% (Sina, 2010). According to its company description in Nasdaq profile, "*we generally operate our directly operated learning centers in the larger and more developed testing markets, while expanding our learning center network into new cities through franchise arrangements with local business partners. This growth model allows us to rapidly expand our learning center network in a capital-efficient and flexible manner, while maintaining quality and consistency in our educational service deliver*" (Nasdaq, 2010). See Figure 2 for the moment of the listing.

Figure 2*: GEDU listed in Nasdaq in 2010*

Source: Sina (2010)

For many people GEDU 's road to going public was a miracle considering its short years of operation in the market, especially the fact that it was only three years after the investment by venture capital SAIF Partners in 2006. The stock price of GEDU on the first issue day in Nasdaq increased as high as 16.19%, cheerful news for all the stakeholders (Money, 2012).

However, since the second day of the IPO, GEDU's stock price had been keeping going down and down. On the 7th day, bad news was that it dipped even lower than the stock issue price (Money, 2012).

The miracle turned out to be a nightmare. Many of the top managers started to leave the company within the new two weeks of the IPO. According to a former employee of GEDU, almost 50% of the managers in the company's headquarters in Beijing left the company, including the Chief Financial Officer (Money, 2012).

Former employees shared the reasons behind their leaving: the decline of stock price was one of them, but the most weighted factor was the management style and the corporate culture (Money, 2012).

The management on GEDU depended mainly on the founder Zhang Yongqi, who ran the company as a family company, mainly because the founders of GEDU are husband and wife, brothers and sisters and friends. They worked hard and fought with each other hand by hand, making decisions by discussions and usually decided by the leader (the most powerful of the company), so responsibilities were not clearly defined and delegated. Sometimes, Zhang Yongqi had to be in many places at the same time. Also, decisions were usually made informally, and procedures were not always standardized as the mission was to get things done for the "family". Also, businesses were done with local accounting principle and most finance was managed in cashes (Aliyun, 2014)

Before the IPO, the committed employees were encouraged earnestly by the company leaders who gave out promises of getting them rich and promoted, which most Chinese people wish to have in the whole life. The way they motivated employees is similar to the way parents promise rewards to their children to get straight A-s for the final (Money, 2012).

After the IPO when the stock price dropped and almost become penny stocks, anger arose within the company. Some former employees said they felt like being tricked and betrayed as promise could not be delivered. However, because the complicated relationship and network in the family-like company, even though some left the company with disappointment, some were still hanging on owing to the effort and time devoted to the "family", with a slim hope that the "parents" would lead them to success (Aliyun, 2014).

Besides, the corporate culture nurtured in the company was proud, reckless and competitive. The preparation for the success of going public within the years made GEDU this way. To go public, GEDU needed to take as more and more market share, and cut as less and less cost as possible, as what was suggested by the venture capital SAIF Partners. SAIF Partners required "*sales in GEDU should increase in a rate which can never be lower than 40%*", a former employee recalled (Money, 2012).

Under such pressure, one practice was that the company had to take short cut to create new line of products and services. Usually, the R&D of educational products, the building of the brand, and the ensuring of quality services take time. Yet, GEDU wanted to jump to the top in one step: thinking less about the implementation of a product (e.g. training services of other foreign languages besides English). These sub-brands and products made GEDU's IPO profile look nicer but actually it promoted a non-down-to-the-earth working attitude (Money, 2012; Aliyun, 2014).

Other practices included that employees were given sales quota and the one who could not meet it should be the one to be fired first. To win, colleagues competed with one another and made dirty tricks to steal their colleagues' customers and clients and to gain more market share for the company. Everyone was necking forward with a nerve and anxiety; within the company, employees grouped together to form small unions, so as to win out of other groups (Money, 2012).

For this, GEDU did whatever it took them to do. They gave any internal employee and external people the percentage of commission much higher than the industry "secretly-defaulted" one. As mentioned before, this private family-like company did not have a standardized accounting system, and the commission sometimes was just loosely decided by the sales people, which means there could be many insider trading and falsely reported spending as commission that gave out (Aliyun, 2014).

However, the company's IPO changed non-transparent way of doing business. To comply with international standard, every business activity of GEDU should be written down as clearly as possible, leaving no chance for those who wanted to make tricks (Money, 2012).

Therefore, after GEDU's IPO in October, 2010, some employees saw no chances in making quick money from it and left to the GEDU's competitors; some stayed only for the sake of the family relationship or the feeling of belonging to the "family", but demotivated (Money, 2012) (Aliyun, 2014).

1.4 Pearson’s Acquisition on GEDU

1.4.1 The Marriage

Before 2011, Pearson had been present in China for decades, being the provider of books and contracted services like consulting, and professional training.

In 2008, it helped the New York Institute of Finance to provide training to financial professionals and managers; in the same year, it made acquisition on two Chinse private language schools which offered English training courses to kids and teenagers (Pearson, 2009). In 2009, another acquisition was made on another educational company (Wall Street English) which also provided English training class, but mainly to adults who want to attain more leverage on their career path (Pearson, 2010).

As to Global Education and Technology, a provider of test and qualification training who enjoy great fame in the industry, Pearson had already had business cooperation with, mainly about the license of using Pearson products like New Concept English books and other services (Iyiou, 2017).

However, starting from April 2011, Pearson begun to think about the possibility of two firms merging together due to the strategic importance, and gave the first round of price quotation. Yet later, to further the process of the transaction, Pearson raised the price of buying GEDU to \$294 million. Since July 26, 2011, due diligence process had been made ongoing (TheGuardian, 2011).

The due diligence took a few months. Then the discussion for the marriage of Pearson and GEDU continued as any M&A did. In October 2011, negotiation began and at the first week of November 2011, both parties finalized the price of such a takeover (GEDU, 2011).

On November 21, 2011, the news of Pearson taking over GEDU was announced (GEDU, 2011). Many employees of GEDU got the news of their company having been sold from newspaper and social media, according to an employee who used to work in GEDU (Tencent, 2013).

Such a marriage between these two companies was considered as a big strategic move which tents to benefit both parties.

The seller GEDU thought that through the acquisition by a prestigious international company like Pearson, it could help avoid its dilemma being stuck in Nasdaq where its stocks were undervalued in the market as the price plunged into the figure lower than issuing price; also, this transaction also could help itself pace the way to expand outside China into markets around the world. According to its founder and former CEO Zhang Yongqi, with the fame and resources from Pearson, GEDU could copy the business model and apply it into international arena, starting from Southern Asian countries (Xiamag, 2018).

The buying party Pearson also had good reason behind this marriage. It planned to expand in the "*large scale direct delivery services*" to Chinese customers and built a comprehensive chain for providing English language training service, by adding GEDU to its existing assets in China. By having Dell English targeting at customers from age 4 to 18, GEDU at teenagers and college students, and Wall Street English at adults, Pearson wanted to cover all the services related to English language training, test and qualification to people in all age groups. For this, the combination between GEDU and Pearson was then considered as a perfect example for M&A (Iyiou, 2017; Xiamag, 2018).

Only one surprise was that, one month after the official announcement of the acquisition, an incident was reported (Imeigu, 2011; SEC, 2011), and some shareholders had expressed some concerns on the insider trading. This was because some GEDU founders including Wang (friend of the wife of the GEDU's CEO), one executive director (also the brother-in-law of the CEO's wife) and some others were investigated by the US Securities and Exchange Commission and their assets got frozen (Axler, 2011). It was reported that "*A Global Education co-founder and Chairman of the Board apparently tipped Wang and possibly others about the potential acquisition. Wang then transferred new funds into her previously dormant brokerage account and bought 28,000 Global Education shares.*" and "*Their illicit gains totaled more than $2.7 million*." (SEC, 2011)

However, an acquisition that had been done was done. GEDU delisted itself from Nasdaq and became one Pearson's asset in China (Tencent, 2013). Pearson's management on GEDU started in 2012.

From 2012 to 2017, Pearson had been putting effort in integrating the combined business. However, such effort was not rewarded with promising results: the performance of GEDU during these few years under the ownership and control by Pearson was mixed. In 2017, GEDU's 2016-financial-figure was only equivalent to the amount of its 2008-revenue, without growth in a growing industry, which cut GEDU's value into only 1/3 of its original one (Iyiou, 2017). Also, synergies between GEDU and other Pearson's assets like Dell English (which had been closed in 2014) and Wall Street English did not reach the expected amount (Xiamag, 2018).

In 2017 revenue dropped (Fortune, 2017). It is said the change of Chinese customers' preference to online learning over face-to-face training greatly impacted GEDU's English language training services (Iyiou, 2017).

Later, Pearson made modification of its strategy in China. In its website, it announced, "*Pearson's strategic shift away from large scale direct delivery services to focus on more scalable online, virtual, and blended services"* (Pearson, 2017). To put it simply, Pearson decided to sell GEDU and Wall Street English, stepping back from Customer to Customer (C2C) business and instead, focusing on Business to Business (B2B) business in China, meaning it shifted its business focus from directly to indirectly providing services to customers. According to Pearson' head of Pearson Asia at that time, Pearson would focus on developing the core competency in education industry, which is content and testing services driven by technology (NTES, 2017).

This looks like that this is just a change of strategy in changing market environment. Yet, internal people revealed that it is not that simple. A female senior manager commented, "*Many people thought Pearson is a company who specializes in education and knows the best about education. What I have feel is that it is a company good at buying and selling but not business integration. It is not something they care, and actually (I think) they can actually do well.*" Also, in GEDU's founder Zhang Yongqi words, "*One year after the acquisition, business localization made little progress. Pearson seems not to have the controlling capability in localizing its business in China as we expected.*" (Xiamag, 2018; Iyiou, 2017).

1.4.2 Pearson's Management Thoughts in China

This marriage above was not Pearson's first case. As mentioned previously, Pearson had acquired two other Chinese educational companies: Dell English and Wall Street English, so Pearson had had management experience in managing business in China. In an interview in 2012 with BBC News, Mr. David Kedwards, Chief executive of Wall Street English and head of Pearson Asia, shared his insights in doing business in the country of China since 2001 (BBC, 2012). He mentioned concerns:

1. About leading. There was difficulty in getting the right managers who not only have skills in business, but also language and cultural awareness in managing in "*highly matrixed multinational corporations*" (BBC, 2012).
2. About decision-making. He thought Chinese people follow orders from us in a very careful and discrete way but still not with satisfactory result due to Chinese subordinates'' lack of "*initiative or creativity*" (BBC, 2012).
3. About markets and products. He realized the great desire of Chinese people for English education and their way of "*teaching English by rote*", so "*We(Pearson) offer a super-premium product and are more expensive than our competitors……, (using) a blended learning approach (that students) will be doing a lot of the learning on their own, (with) About 60% of the curriculum involves students interacting with our proprietary software, 30% is with teachers, and (……)to interact with a computer instead of a teacher. (and) We're not here to teach people how to pass a language exam to get into a university or for foreign immigration.*" (BBC, 2012)
4. On people and cultural difference. He knew that "*in China and a couple of other Asian countries - Korea, Japan - the issue of "face" is critical. And teaching is a glorified profession - in contrast with the West. (However), our software is now available online, and (students) interact with a computer instead of a teacher.*" "*In China, (there) is the bureaucracy, (……) agencies and departments for everythin*g." To help business in China, "*We (Pearson) also hired a couple of key people who used to work in the department of education*." (BBC, 2012)

1.4.3 Management on GEDU

After the acquisition of GEDU in the end of 2011, Pearson international expansion into Chinese market reached a higher level.

For Pearson, a big international company who has business in 70 countries around the world, risk management has been a major topic and to mitigate risks in business operation, control over business activities in various countries has been closely monitored (Pearson, 2012).

1.4.3.1 On Administration and Structure

In GEDU, Pearson required the use of Oracle system for administration and monitoring business operations. "*Foreign companies prefer rigorous and standardized management process. It is understandable*", the founder and former CEO of GEDU said, "*Oracle system is a good system for big manufacturing and industrialized companies, but not suitable for private schools and learning centers like us (a private company with flexible system)*" (Xiamag, 2018).

The management style of adapting standardized procedure lengthened the time for the approval of a task. A former employee said, "*it took around one to two months for the headquarter to approve the rental contract of a newly opened learning center after numerous emails back and forth between different departments, offices and managers, which was really inefficient while competing in such a competitive China market*" (Xiamag, 2018).

Even, after Zhang left GEDU in 2014, Pearson headquarter even named several managers who has no or little experience in educational business. Within the next 3 years, GEDU's CEO had changed in four people, who were Feng (2014-2015), Li (the beginning of 2016), Xiao (also the MD of Pearson Greater China) and then Soo Kang (2016-2017) (Iyiou, 2017; NTES, 2017).

In 2014, this new managing director Ms. Xiao who had been working in the IT-related retail industry, adopted matrix structure for GEDU (Xiamag, 2018). According to Grant (2012:193), matrix structure is an organizational structure to "*formalize coordination and control across multiple dimensions*". Local heads lost the power of being independent for its business activities as they had to report upward as well as to different product managers, function heads and regional heads, which again compromised efficiency (Grant, 2012).

Besides, due to the adoption of this matrix structure, more new employees were hired. The result was that the number of total employees doubled, from only 1200 to around 4000 and the number of managers with different level of titles were even more than those active in the front line and implementation roles (Sinomanager, 2017). This is the very opposite from what GEDU did: front line employees, especially the marketing specialists, were very quick and independent while responding to the ever-changing customers' needs and the fierce competition from competitors.

Flexibility was compromised in such a situation. Many good managers who had been working in GDEU left in groups, together with their subordinates, leaving the company in a situation of chaos and confusion (Xiamag, 2018). According to a former employee, before 2014, most employees had been in the company for at least 8 years but in 2016, the figure was only 2.7 years (Iyiou, 2017).

Moreover, for those who cooperated with Pearson, slowness in business progress became normal. A former employee said, "*A task which takes others to finish in days, could take Pearson months. …we are also upset about it because we feel like no power and independence in doing our job…… (for Pearson) finance need control; policies need control….*" (Sinomanager, 2017).

1.4.3.2 On Market

Since 2013, Pearson had been promoting Pearson Test of English (PTE), a standardized test newly developed for those English language learners who need to prove English competency to higher education institutions for enrollment purpose. As China has the biggest population and it values the importance of education, for this standardized test, it saw China the primary market in sales (Pearson , 2013).

To put this test into Chinese market, Pearson headquarters asked every employee to sell such a standardized test to Chinese students who wanted to study abroad. However, nobody at that time had ever heard about PTE, but later told that such a standardized test is an alternative for the qualification of English proficiency to International English Language Testing System (IELTS) certified by British Council. Also, to promote PTE, many related systems like My lab and book series Cutting Edge were required to use, which put all the existing teachers in an uncomfortable situation. They felt Pearson's idea to use automated systems and replace teachers in some way (Anon., 2018).

After this, many existing employees resisted the promotion of PTE exam because it is contradicted to GEDU's current competitive advantage. Since the birth of GEDU, all the employees put their time and effort in building the company as the top brand in providing test preparation training for IELTS. The reputation set was well-known to the potential IELTS exam taker that GEDU is the one who help them in the success of studying abroad, with the assistance of GEDU's experienced teachers. According to some former employees of GEDU, they thought Pearson did not understand Chinese market and did not know the position it stood for the future of GEDU. Others commented, Pearson were undermining its own asset, GEDU and even when they were doing this, they should have a new department separate from its existing business (Anon., 2018).

Many IELTS teachers were worried about their future in the company, and some left to other companies or, some of them left together to just start their own business (Iyiou, 2017).

Those who stayed received training about PTE product functions and exam-taking tips for a short period. Then, some started to give training to a small number of PTE takers. However, exam results from those exam takers had been mixed with bless and curse. "*Chinese students who want an English qualification usually just need a piece of paper proving their language proficiency in a short time so as not to miss their school enrollment. They want it fast and rather easily. PTE was still very new to them, without prestigious brand and professional teachers to help them to do it quickly*", according to a former employee, "*They needed to train the teachers, marketing specialists and all other employees well about PTE, so that potential PTE exam takers could reach their objectives. Then many people would have chosen PTE over IELTS*" (Anon., 2018:4).

At that time, existing competitors took advantage of this, investing huge amount in advertising and attracting those students who just want quick results on English grades. Worse was that, because the entry barriers in English language teaching industry are quite low, some employee left the company with current clients and set up their own learning centers. So, for Pearson's GEDU, concentrated market was divided and diluted by different competitors.

Yet, Pearson did not realize this. They made the decision on top and then implemented it, not taking much feedback from the front-line voices. Actually, "*It is such a shame. Before, there* *were a huge group of passionate teachers who help each other to know about the products and its characteristics. That was the R&D team who did research in how to meet Chinese students' actual needs, rather than just follow the book and teach standardized content. ……now they just want to sell the product but to invest in training the teachers who use its product in adding value to customers.*" another former GEDU employees quoted (Sinomanager, 2017).

Another example of Pearson lack of attention of local voices is that, in 2012 during the time while Chinese online learning was at the very early age, GEDU was the first one in the educational industry to cooperate with YY (now top online education company) and used live online video teaching. Only one year later, online business contributed around $500,000 each month when every other companies tried to break even or was in finance struggling with adopting different business models. In 2013, it accounted more than 15% of the total revenue and seeing an increase in the future. Those employees setting up the website and the online training business model thought it was a good opportunity to set competitive advantage in the online business, asking more financial support for further development and brand-building, especially on intensive advertising.

However, Pearson did not agree, ignoring the local front-line marketing experts' experiences and perspective and just putting their focus on promoting PTE. Without support financially and managerially, GEDU's online business could not see great growth and profit was slim. In December 2014, it was sold to YY and only kept the part for English training. Yet after the core professional responsible left the company (Yi, 2017).

1.4.3.3 On People

After listing in Nasdaq in 2010 and the unexpected low market price of the listed stocks, GEDU had high turnover rate, so at the time when the acquisition happened, the employees were those loyal to the company, either because they were relatives or friends of the founders or top managers, or they had special bonding and a feeling of belonging to the family-like company (Tencent, 2013).

Among these employees, the teachers who delivered training services to the customers were a group respected by the company. This is partly because of the meaning of the profession "teacher", which Chinese people have always paid respect to (BBC, 2012).

Also, these teachers in GEDU helped built the brand awareness. For some students seeking help to improve their English and exam grade, they think choosing a learning center for "*the good quality these teachers can deliver in their teaching*." GEDU realized the importance of teachers' reputation and quality delivery, so they had always been providing intensive training and practices to improve them. Those who stood out would usually get promoted and paid more. Also, they were given 100% support in their work. One GEDU employee mentioned the benefits of training system, which helped the good delivery of good class.

After the acquisition, things started to change slightly due to Pearson's plan in cutting costs and increased sales and revenue. There was less training programs and some teachers were just stuck in where they stood, without further improvement programs and promotion opportunities. Instead, Pearson adjusted its hiring strategies for new teachers, having preferences to newly-graduates from top university, even those from Ivy League in the US. *"……but teaching is not about where you graduate, but how you deliver the content and knowledge. A lack of training for those new employees does not help ensure the quality of education.*" a GEDU employee said (Anon., 2018:5).

Before the acquisition when Pearson was still just a service provider to GEDU, Pearson sent professional training specialist in helping GEDU's teachers to know well about its products to deliver the true value to local students. These Pearson's training specialists usually spent almost every working day in training others. Disappointedly, after the acquisition, almost all of them were let go by Pearson so there were no well-functioning and comprehensive training system. "*It is very important that teachers are valued and get trained to know the books, and teaching materials. That is how education works.*" A former employee expresses this (Iyiou, 2017).

Moreover, some experienced teachers did not get more teaching hours because they were too expensive. Not being valued, these teachers left the company, bringing away their reputation, influence and network with customers (Anon., 2018).

This high turnover rate did not just apply for the teachers but also employees from other departments. As mentioned before, Pearson's ignorance of local voices caused a lot of people's resign, usually in groups, such as those who worked for the online education project. Even, an internal source revealed the reason for the founder and former CEO's leave in 2014 was related to that he was undervalued in strategy-making process and business practices. His leaving caused another group of employees resignation (Sinomanager, 2017; Anon., 2018).

1.4.4 The Divorce

In 2017, Pearson divested GEDU and sold it to a Chinese education group in $80 million dollar, with a huge loss (Chinahighereducation, 2017; Pearson, 2017; Wood, 2017).

2 Pedagogical Note

2.1 Target Audience

This case study aims to be used for lectures to undergraduates’ students who do programs on international business, international management, cultural issues in M&A, and strategy implementation and localization. It can also be referred to lectures related to doing business in China.

Moreover, this case study is available for business managers and management professionals to learn from others’ business practices and prepare the reoccurrence of similar mistakes.

2.2 Pedagogical Goals

This case is formed and written specifically for teaching about topics on international business and management. For this, the pedagogical goals here are: 1) to cover all related basics about internationalization and modes of market entry and expansion, M&A risks in China and cultural role in cross-border management; 2) to relate to and understand the theoretical concepts and framework under a context of real life events; 3) to develop students’ analytical skills, presentation and communication skills, teamwork spirits, problem-solving capability; 4) to learn from past business activities and accumulate knowledge and experiences for future management challenges.

2.3 Educational Objectives

After the study of this case study, students are expected to:

- ✓ Understand internationalization and the proactive and reactive motives behind;
- ✓ Understand each mode of market entry and expansion, their characteristics and benefits and challenges;
- ✓ Understand M&A process, risks in inbound investment in China and the reasons for management challenges;
- ✓ Draw cultural map for groups of countries and conduct culture due diligence on companies;
- ✓ Evaluate management mistakes for cross-border M&A in China.

2.4 Literature Review

2.4.1 Globalization and International Business

Globalization is a word not new to everyone living in a global village nowadays. Hodgetts, et al. (2006: 7) defined globalization as "*the process of social, political, economic, cultural and technological integration among countries around the world*". For Menipaz and Menipaz (2011: 29), it is "*a worldwide integration of markets for goods, services and capital*".

According to Kotabe and Helsen (2010), markets and competition have always been described using the term *global* rather than its old words *international* or *multinational*, which have similar meaning, greatly because of the changes in the society. The influence of saturated markets in developed countries, the emerging of developing countries like China, India, Brazil and so on, the revolution of internet, and the competitiveness and cooperation of countries around the world has led to globalization.

In business world, globalization is not an overnight thing but a process, according to Morrison (2011). Such a perspective is shared by Yip (2002) that a total global strategy is the core strategy firstly developed, then internationalized and globalized.

In current world of globalization, the survival, development and prosperity are closely related to the enterprise' s exploitation of opportunities across nations. Doing business internationally means to plan and implement business transactions and activities outside domestic markets to accomplish the goals and reach the objectives set by the companies (Czinkota, et al., 2011).

2.4.2 Motives for Internationalization

Behind the decision to go abroad, there are many forces making effect. Morschett, et al.(2010) concluded that a firm's decision of going international aims at seeking markets, efficiency, resources, capacity and/or following the trend.

Czinkota, et al. (2011) divide the factors into two groups: proactive and reactive motives, based on whether the internationalization process is actively or passively pursuit by the firm.

Based on the explanation of the motivations, it is noticed that some of them, even if put in different terms, belong to the same category of internationalization objectives. Here as Table

1, the motivations of internationalization are adapted from both models and organized using Czinkota *et al*. (2010)'s term: proactive and reactive motivations.

***Table 1**: Motives for internationalization*

Motives for internationalization	
a. Proactive Motives	b. Reactive Motives
a1) market seeking/profit advantage/ sales increase a2) unique product(s) or service a3) resource/capability seeking a4) exclusive knowledge/Follow the customer a5) efficiency seeking/economies of scale a6) tax benefits	b1)tagnation/decline in sales or market share in domestic market b2) competitive pressure/follow the leader b3) overproduction/extra inventory b4) closeness to customers or international markets

Source: adapted by the author from Morschett, et al. (2010) and Czinkota, et al. (2011).

a. <u>Proactive Motives</u>

According to Czinkota *et al*. (2011), firms stimulated by proactive motivations are those who have internal needs and actively seek internationalization.

a1) Market/profit seeking is considered as the primary and the major motive when companies enter and expand in other foreign markets. These companies expect high probability and increase in sales, especially when there is great market size and potential, and promising number of customers with a high demand (Morschett, et al., 2010; Czinkota, et al., 2011).

a2) Unique product(s) or service held by a company is also a weighted factor for it to go international. The company thinks that such a product/service/technological edge differentiates itself, hence giving itself a competitive advantage to win in international markets (Czinkota, et al., 2011).

a3) Resource/capability seeking includes the seeking for tangible and intangible resources (Morschett, et al., 2010). According to Grant (2012), resources include tangible resource (plant, equipment, land and mineral reserve), intangible resource (patents, industry secrets, brand reputation, business relationships, organizational culture) and human resources (know-how, teamwork ability, motivated people). Morschett, et al. (2010) recognize that those companies who lack or wish to gain such resource are motivated to expand into those foreign markets with those resources.

a4) Inside knowledge about foreign customers or market sectors is a stimulus for a company's active adoption of an internationalization path. The firm may accumulate such special and market information during its business activities, or networks of managing personnel and see the opportunity of taking advantage of it before their competitors (Czinkota, et al., 2011).

a5) Efficiency seeking/economies of scale play an important role in companies' choice of internationalization. Companies seeks to improve profit via cost efficiency, which can be reached from mass production or economic of scale or other difference in cost factors outside their domestic base, like lower of materials, labor, and logistics (Morschett, et al., 2010; Czinkota, et al., 2011).

a6) Tax benefits is also a motivating factor to push companies to internationalize. In some countries, government give tax benefits to encourage companies to do business abroad, or some design tax policies favorable to foreign players (Czinkota, et al., 2011).

b. Reactive Motives

For Czinkota, et al. (2011), companies must make a responding move to adapt to external changes in business environment and are motived reactively to go internationalize.

b1) Stagnation/decline in sales or market share in domestic market is one of the external factors which push firms to seek outside home (Czinkota, et al., 2011). Every product has its product life cycle: introduction, growth, maturity and decline (Theodore, 1965). While the product arrives to its decline stage in domestic market, companies tend to extend the life cycle in foreign markets via international business (Czinkota, et al., 2011)

b2) Competitive pressure forces firms to **follow the leader** to also compete in other markets. Due to the internationalization of domestic competitors who may have benefited from cost efficiency, economic of scale, home market becomes an arena with more difficulty to compete. Under such a condition, firms also go international (Morschett, et al., 2010; Czinkota, et al., 2011).

b3) Overproduction results into extra inventory so companies need to seek ways to deal with letting them out. Markets outside the borders is a good choice, so companies enter new markets (Czinkota, et al., 2011).

b4) Closeness to customers or international markets can also represent a reactive factor making firms to play in international playgrounds. Phycological closeness between countries naturally make internationalization reasonable among them. Physical changes may make firms close to a port, or shorten the physical distance of markets, leaving those firms opportunists to go international more easily (Czinkota, et al., 2011).

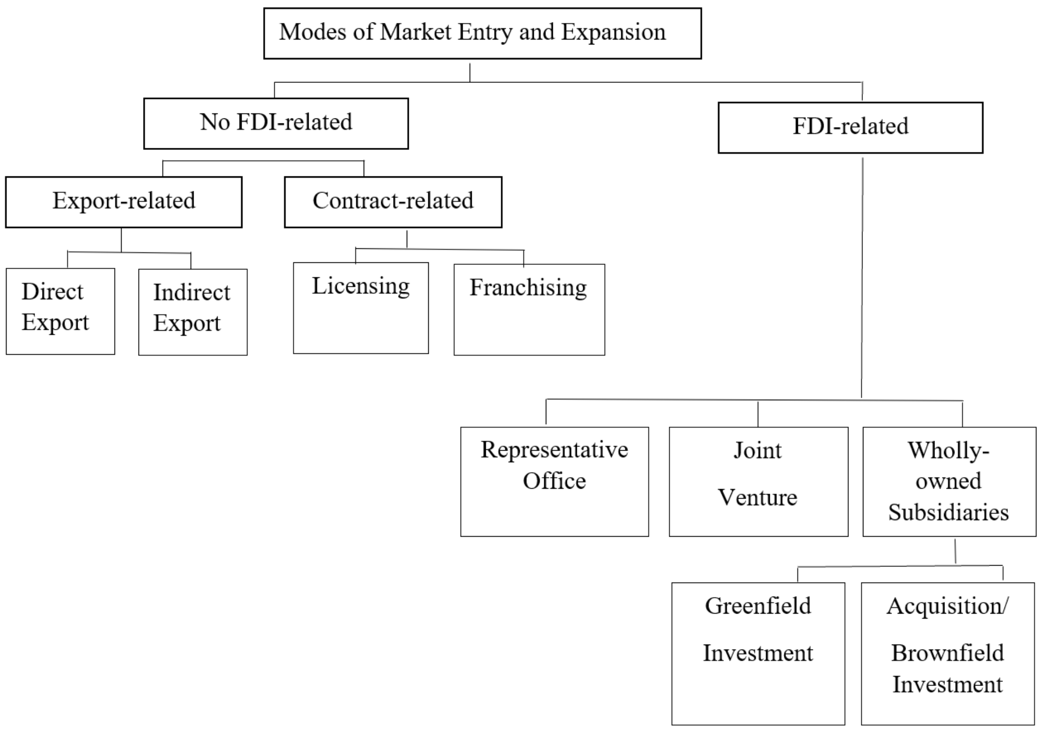
Generally, according to both Morschett et al. (2010) and Czinkota et al. (2011), a firm's decision to go international is not the result of a single motive but a combination of different objectives. Both internal and external factors act together as the motivations for a firm's internationalization process, but Czinkota et al. (2011) also points out that the effect of proactive motives tends to override the influence of reactive ones, as firms strategically take actions to grow, survive and prosper.

2.4.3 Modes of Market Entry and Expansion

International business can take on many forms, and the would-be entrants faces these choices of forms of operating in other countries, which researchers classified into three groups (Figure 3).

They are 1) export-related modes: direct and indirect exporting; 2) contract-related modes: licensing and franchising; and 3) foreign direct investment: joint ventures and wholly-owned subsidiaries, both of which can be greenfield- or -brownfield investment (Root, 1998; Kotabe & Helsen, 2010; Ebel & Hofer, 2010; Morschett, et al., 2010; Czinkota, et al., 2011).

Figure 3:*Mode of market entry and expansion*



Source: Adapted from (Root, 1998; Kotabe & Helsen, 2010; Hofer& Ebel, 2010; Morschett, et al., 2010; Czinkota, et al., 2011).

1) Exporting

Exporting is the first way that most companies enter into other markets besides home market and it mainly has two ways: indirect and direct exporting. Both indirect and direct exporting require a middleman to sell their products.

For **indirect exporting,** the company finds the middleman in its home market and lets those intermediate parties responsible for other business related to the selling of its own products to foreign markets.

Under **direct exporting**, the middleman is based in foreign markets. Direct exporting works in a way that the firm itself needs to set up an independent department to take on all the activities arose from selling its goods through national borders, including screening and selecting middlemen in targeted countries where it wants to enter, dealing with all the logistic issues like filing to customers (Root, 1998; Kotabe & Helsen, 2010).

2) Contractual Agreements

Through **Licensing,** the firm, called the licensor here, makes a business transaction via a contract detailing a certain specific asset of the firm, like trademarks, know-how, patents and technology knowledge, which can use in foreign markets by another party: the licensee. In return, the firm gets profit or royalty fees from a certain percentage of the licensee's sales revenue.

Franchising is with some similarity of the practice of licensing, but the difference is that the franchisor provides more than just some of its assets, but a package of business formula to conquer the franchisee's markets. Such a set of business formula includes the first step of starting a business like selecting a location, providing a business model, organizational structure, supply chain model, marketing ways, support services, or the whole set of business activities in the value chain (Root, 1998; Lafontaine, 1999; Hollensen, 2007; Kotabe & Helsen, 2010; Czinkota, et al., 2011).

3) Foreign Direct Investment

Representative office is taken as an easy way to entry a foreign market during the early stage of direct investment. By setting a representative office in other countries outside home market, the firm could present itself to some local customers and at the same time gather information regarding to local markets, though not doing business directly and making profits. In this way, the headquarter receives feedback from these liaison offices and stay to the trends of market changes in foreign countries (Ebel & Hofer, 2010).

Under **Joint-venture,** a firm enters and expands into foreign markets by establishing a partnership with two or more parties including local companies, other foreign enterprises, local authorities, in which they share resources and capabilities to reach specific goals. For projects, products or services that relate to infrastructure, high-technology and so on, joint-venture is a good and viable way for foreign entry players to succeed, as local partner(s) bring(s) into local knowledge.

There are two kinds of joint venture: cooperative and equity. In cooperative joint ventures, each party sustains responsibilities stated in the written agreements, but for equity JVs, everyone needs to take certain shares of capital committed, shoulder the amount of risks and share the profits equivalent to the percentage of the investment.

Having **wholly-owned subsidiaries** for a firm means entering and expanding into foreign markets in which it has subsidiaries with 100 percent ownership and control. Such a market entry strategy can be achieved either in cross-border acquisition or in greenfield investment.

Cross-border acquisition is also referred as brownfield investment, as the market entry player buys or takes over local companies who has already had some foundation in local markets, rather than starting from scratch as **greenfield investment** (Root, 1998; Lafontaine, 1999; Hollensen, 2007; Kotabe & Helsen, 2010; Czinkota, et al., 2011).

2.4.4 Characteristics of Different Modes of Market Entry and Expansion

According to many researchers (Anderson & Gatignon , 1986; Hill, et al., 1990; Zhao, et al., 2004; Morschett, et al., 2010; Kotabe& Helsen, 2010), four characteristics are mainly presented by various foreign market operation modes: control, resource commitment, flexibility and the risk of knowledge dissemination.

Here, definitions on these terms are as the following:

Control means "*the ability to influence systems, methods and decisions*" (Anderson & Gatignon, 1986:3), and "*the authority over strategies and operational decisions*" (Morschett et al., 2010: 245), including the control over decision making, operation coordination, strategy implementation and revision, conflicts resolving, profits and return.

Resource commitment refers to the transaction cost related to the choice of a mode of entry and expansion, including the necessary resources required to dedicate during the foreign operation. Resources committed relates to flexibility (Morschett, et al., 2010).

Flexibility means the speed and effort to exit foreign markets after having committed certain resources to those markets. When the recourse commitment is high, the flexibility is rather low, showing an opposite trend (Anderson & Gatignon, 1986; Morschett, et al., 2010).

The risk of knowledge dissemination refers to the possibility that players in foreign markets obtain a certain amount of knowledge and capacity from entry firms and then use that to turn against the entry firms or become the competitors of those entry firms. Such knowledge is mainly about the important one which is usually treated as the source of competitive advantage of the entry firms in foreign markets, like know-how in technology and marketing, so the firms entering foreign markets need to protect their knowledge and avoid of risk of leaking it (Hill, et al., 1990; Agarwal & Ramaswami, 1992; Morschett, et al., 2010).

For each entry mode, the degree of the propensity to every characteristic comes differently (Table 2). Anderson and Gatignon (1986) group them mainly from the level of control; Hill, et al. (1990) from control, resource commitment (strategic flexibility) and dissemination risk; Driscoll & Paliwoda (1997) and Morschett et al. (2010) put them comprehensively by the degree from low, medium to high.

Table 2:*Characteristics of each mode*

	Export	Contractual Cooperation	Equity Cooperation	Wholly-owned Subsidiary
Control	low/medium/high	low	medium	high
Resource Commitment	low	low	medium	high
Flexibility	high	medium	medium	low
Knowledge Dissemination Risk	low	high	medium	low

Source: Morschett, et al. (2010).

Based on these characteristics of different modes, on Table 3 it compares the benefits and drawbacks in every mode, according to Kotabe and Helsen (2010).

Table 3:*Benefits and caveats of each mode*

Entry mode		Benefits	Caveats
Export	Indirect exporting	- Very little resource needed as it is the most preliminary and easy way to enter a foreign market.	- Very little control over product sales as the middleman can represent different products from all other competitors;
	Direct exporting	- A bit more control than under indirect exporting.	- A bit riskier and more commitment; - The company needs to set up its own export department and deals with finding overseas middleman and related logistic issues.
Contractual Cooperation	Licensing	- Access to international markets with not much resource commitment and low risk; - Gain knowledge about overseas market gradually without actual presence there.	- Not much control on foreign markets (Licensee has the control right); - Must share knowledge and know-how; risk of future potential competitors; -low motivation.
	Franchising	- Access to international markets with minimum investment; low risk; - High motivation; - Gain knowledge about overseas market from franchisees' input and feedback.	- Agreed control based on the contracts, and during the time local knowledge accumulates; -Not much profits; - There can be cultural problems.

Equity Cooperation	Joint-venture	- Shared commitment; - Shared risk; - Take advantage of local(overseas) partner's resources like "*land, raw* materials, expertise on the local environment (culture, legal, political), access to a distribution network, personal contacts with suppliers, relations with government *officials*" (Kotabe and Helsen, 2010:307); - Higher potential to gain more return; - Good synergy benefits.	- Shared control/No full control; - The working partners have a greater possibility of becoming future competitors; - Conflicts can be in many areas as everything is shared and trust is not 100% genuine between the partners.
Wholly-owned Sub-sidiaries	Acquisitions/ Brownfield investment	- Full control; - Reap all the benefits; - Least possibility of dissemination risk; - Use the resources of the acquired company.	- Costly takeover payment - Assume all the responsibility of management loss; - Integration risks in culture, management, - Risk of cultural clashes which influence the local implementation of the strategy.
	Greenfield investment	- Full control over everything; - Least possibility of dissemination risk; - More flexibility; - No risks of integration and cultural clashes.	- Building everything from scratch, so not only resources but also much more time and effort needed;

Source: Kotabe & Helsen (2010)

2.4.5 Determinants of Entry Mode Choices

2.4.5.1 Transactional Cost Theory

Under transactional cost analysis, the decisions on the ways to enter and expand foreign market are made based on the comparative costs under alternative foreign operation modes, and companies tend to choose foreign market entry modes that can best reduce the cost for the transaction.

Anderson and Gatignon (1986) develop the transactional cost approach for the choice of entry modes. This is firstly market-based, as when market is competitive, low-control entry modes like exporting, licensing and franchising is favored, but when gradually assets like reputation, brands, technology or know-how become valuable and under the risk of dissemination because of the opportunistic behavior of local players, high-control foreign operation methods are chosen.

The authors think control is considered the "*single most important determinant of both risk and return*" (Anderson & Gatignon,1986:3), especially in a risk-adjusted return theory in economics. When there is more control in the investment, return tends to increase. They take the choice as the preference to low or high control in foreign market activities, under a trade-off between control and resource commitment, which entails the degree of risk and flexibility. The firm's preference between the level of control is affected by these constructs: asset specificity, the uncertainty of the external environment and internal ability to know the result of foreign market performance, the risk of other players' possibility to damage the entrants' name.

A high control mode of market entry is related to the assets and products' nature of being ill-understood, ill-structured, pro-customization or immature, the host country's political economic situations' riskiness, the lack of foreign markets' players in the host country, the risk of the loss of the entrant's name and/or the applicability of entrant's competitive advantage in the host country (Williamson, 1985; Anderson & Gatignon, 1986; Zhao , et al., 2004; Morschett, et al., 2010; Kotabe & Helsen, 2010).

2.4.5.2 Resource-based Theory

Hill, et al. (1990) add the consideration of overall strategic direction of the firm in globalization to the eclectic theory when choosing the entry mode into foreign markets. The variables in the framework include strategic factors (global strategy and competition situation), environmental factors (country risk, entry's experience in host country, local demand and competition), and transaction-related factors (the value of the entry's know-how in technology, human resource, and so on).

The building of competitive advantage depends on the resources and the decision to which way to enter and expand into foreign markets is closely related to the strategic direction. Therefore, "*firms with imperfectly imitable resource-based competitive advantages prefer to expand through internal organizational (wholly owned) structures*" (Brothers et al., 2008:191). According to the theories, by choosing the mode of wholly-owned subsidiaries, it can protect their competitive advantage which has been developed depending on their own resources, and, it can easily transfer such an advantage via intercompany, with their total control of the activities in the foreign markets (Peng, 2001; Brouthers et al., 2008; Hill, et al., 1990).

2.4.5.3 Factors Framework

Kotabe and Helsen (2010) concludes that a decision-making process by a company's entry and expansion mode generally is influenced by external and internal factors.

Externally, a company who wants to enter and expand in a foreign market needs to see the foreign country's overall attractiveness decided by external factors including the size of the host market and its market potential in the future; political and economic risk in the host country/the stability in the political system and economic development of the host country; the openness of the governmental policies in the host country; the competition situation in the industry where the entrant will enter and expand; the cultural distance between the entrant's country and the host country and the level of development in the host country's infrastructure (Kotabe & Helsen, 2010).

According to Lasserre (1995), investment in the Asia Pacific region can be based on four class of countries which have similar level of the overall market attractiveness: platform, emerging a growth, and established countries. Among them, China and India fall into the "Growth Countries" category (Lasserre, 1995).

Besides, to make decisions on mode of entry and expansion, internal influencers should also be considered, which include the future goals and objectives of the company strategy in the country it is entering and expanding, the degree of control and flexibility it wants to have in the local operation, and the resources it have and is willing to commit into implementing the entry and expansion strategy (Kotabe & Helsen, 2010).

2.4.6 Mergers and Acquisitions

Mergers and acquisitions have been often used interchangeably, as both mean the combination of companies, Scott (2003) gives them definitions in technical terms, referring to merger as “*a combination of two or more companies in which the assets and liabilities of the selling firm(s) are absorbed by the buying firm* ” and acquisition as “*the purchase of an asset such as a plant, a division, or even an entire company*”.

2.4.6.1 Types of Mergers and Acquisitions

According to Brealey *et al.* (2010), mergers and acquisitions can be classified as three categories: horizontal, vertical and conglomerate. Horizontal mergers happen within the same business sectors, mainly among competitors, while vertical ones occur in the chain of business, like upstream or downstream players. Conglomerate mergers are none of the above two: they reflect the buyers’ interest in different business lines, commonly unrelated ones. Also, such business activities are differentiated as domestic or cross-border M &A (Brealey, et al., 2010).

2.4.6.2 Motives of Mergers and Acquisitions

Behind such an action of combining with each other instead of staying independent itself, there are different opinions on why to make M &A.

Trautwein (1990) and Straub (2007) develop a theory-based framework for the M &A motives. The drivers and objectives of M&A can be to get more efficiency through synergies; get more market share and become monopoly; to use as the leverage of a competition strategy; to take advantage of special and unique information source; to fulfil the managers’ will and goal; to be accidentally during business development; and to follow the trend of M &A.

Table 4*:Framework for the M &A motives*

M&A as rational choice	M&A benefits bidder’s shareholders	Net gains via synergies	Efficiency
		Wealth transfers from customers	Monopoly
		Wealth transfers from target’s shareholders	Raider
		Net gains through private information	Valuation
	M&A benefits managers		Empire-building
M&A as process outcome			Process
M&A as macroeconomic phenomenon			Distribution

Source: Trautwein(1990); Straub (2007)

To grow is one of the most basic and well-known motives for M&A for companies who are unable to achieve it via internal ways. Such a motive of growth or increase in revenues and market share are again driven by the buying firms' targets at novel product process, customer base or good location (Sherman & Hart, 2009).

Brealey, et al. (2011) share similar perspectives, pointing out companies doing M &A activities commonly hope for the accomplishment of real added-value, especially for the buyers. This added-value, mostly referred to synergies, comes from multiple sources: what the buyers have owned or been lacking (but the sellers have). The acquiring company has the propensity to make full use of its capacity and the surplus capital to earn greater revenue via cost cutting (economies of scale or operation efficiency) or diversification investments. Also, it tends to acquire other resources as complement to its own, via access to the sellers' current technology, talents and customers.

In China, according to Yu, et al. (2016), foreign direct investment via cross-border M &A or Joint-Ventures mainly occurs for the achievement of the following three objectives: to reduce cost, access/expand market and/or acquire local assets/advantages.

For the drivers mentioned above, it is important to know that it is not driven by only one single factor but the result of the many motives combining together (Ravenscraft & Scherer, 1987; Sherman & Hart, 2009).

2.4.7 M&A Risks

According to Sherman and Hart (2009), M&As is a long and complexed process, which starts from 1) the early preparation for the reasonableness of the sellers' and buyers' motives, 2) intent of letter and other preliminary matters, 3) due diligence process, 4) deal structuring, valuation and pricing and financing, to 5) the integration and management.

Within the whole process, issues can arise in any stage and kill the deal, but normally after both parties' reveal of intention to merge, deals can be closed smoothly, especially having the help with investment banks and consultants.

Post-closing stage is the time when the challenge begins (Grant, 2012; Sherman and Hart, 2009). Brealey, et al. (2011) and Whitaker (2016) point out most M&A marriage fail after closing the deal, mainly because of poor integration in place-, people- and culture-related issues. Risks may arise from:

1) management on places like office location, decoration and other similar issues;
2) the management on employees and other stakeholders (customers/suppliers/distributors) about the change of positions and compensation policies and job cuts;
3) management on cultural differences in organizational culture and management styles. This is especially true if the buyer falls into a conqueror's attitude: "*We'll do things our way. After all, we are the buyer*" (Sherman and Hart; 2009: 242).

However, risks vary. Sometimes some of the risks can be foreseen before the closing of the deal, yet they are not. Hence, also, the question may be in:

4) the undergoing of due diligence on hard facts and soft areas. According to Sherman and Hart (2009) and Reed, et al. (2011), due diligence on financial statements, operations, managements, legal issues, culture differences and all other M & A related activities helps to detect transaction risks and predict post-M&A issues. Any mistake, ignorance or omittance in such a procedure may blind the buyers' eyes from substantial risks (Reed, et al., 2011).

Among them, **cultural due diligence** is of great importance, because according to Van Gampelaere (2016:139), the integration and management of cultures and attitude is seen as ¨ *the single most important M&A success driver*¨. Culture in cross-border M&A is "*a combination of shared local and corporate norms, behavior, symbols, values, systems, and laws*" (Van Gampelaere, 2016:143).

For Reed, et al. (2011:60), cultural due diligence includes "*research into what the people in an organization routinely believe, think, and do*", and "*attitudes and mental processes (how people feel and think), behavior (what actions get performed and rewarded), functions (how people do things), norms (what rules get enforced), structures (how the above are organized and repeated), symbols (what images and phrases have special meaning), and history (what stories and traditions get passed on to future generations)*". Such cultural due diligence can be conducted by observing the company's history, stories and activities, interviewing employees about their behaviors and beliefs, checking the company's vision statement and other published statements (Newstrom, 2015).

2.4.8 Culture in Cross-border M&A

To know the role of culture in cross-border M&A, both players not only need to have a cultural awareness on the similarity and differences in its own and the other party's national and organizational culture.

Local/social/national culture, in Hofstede, et al. (2010:6)'s definition, is the "*collective programming of the mind that distinguishes the members of one group or category of people from others*", which includes five dimensions, namely social orientation to individualism/collectivism, power distance in the hierarchy, tendency to masculinity/femininity, uncertainty avoidance, and time orientation. This has great impact on the employee's behaviors and ways of doing things (Hofstede, et al., 2010).

According to Van Gampelaere (2016), such influence is on aspects like the way of making decisions and leadership styles. It is essential that the international managers know the difference between countries.

Using Erin Meyer's culture map, Van Gampelaere (2016) compared the characteristics of culture in Anglo-Saxon and Asian counties. Here, Anglo-Saxon counties include the US, the UK and Canada while Asian ones China, Singapore, South Korea, India and Japan. In such a culture map, eight scales are measured, namely the way how a country communicate, evaluate, persuade, lead, decide, disagree, schedule and build trust (see Table 5).

***Table 5**:Erin Meyer's culture theory*

	Anglo-Saxon countries (the US, UK and Canada)	Asian counties (China, Singapore, South Korea, India and Japan)
Communicating	- Low context; - Direct and clear messages; - Conveyed explicitly and correctly by the communicator to the listener.	- High context; - Indirect and subtle messages; - Conveyed by the communicator in an inexplicit way; - Need listeners' effort to detect multiple meanings from the context, - Need to be asked for many times to give a clarified message.
Evaluating/ providing negative feedback	- In a subtle and indirect way using down graders (e.g. slightly). - One negative message comes first with a few positive ones.	- In a rather subtle and indirect way; - Negative result of evaluation given to individuals in a rather relaxing context; -Enough time for the receiver of negative feedback to digest and avoid later discussion.
Persuading	- To the point with practical ways, solutions, actions; - Not with much explanation on how to reach the solutions, actions, - Applications firstly valued.	- Consideration of a bigger picture; - More explanation on the rationale for doing something; -Principles firstly valued.
Deciding	- Consensual decision-making strategy with the input from team members; - However, when the decision is made by the leader, it is final, not subject to any change.	- Top-down decision-making strategy; - A decision is made rather quickly by the leader but need further confirmation (only when the decision is confirmed, it is final). - Information discussions to get input from team members and subordinates.

Trusting	- Built via business activities rather than merely social networking; - People trust others because of others' professional working abilities rather than emotion.	- Built via relationships/networking (in China, called "guanxi"); - Bond with each other via having dinners, drinking, talking, - Very personal regardless of the company they work for; - Not easily broke up. - Prefer phones, direct conversations rather than e-malls.
Disagreeing	- Try to avoid confrontation; - Express emotion/disagreement inexpressively, using humour or sarcasm, or the word "interesting". - Not much like confrontation and prefer to give some time to receive disagreement.	- Avoid confrontation; - Express emotion/disagreement inexpressively - Avoid losing face; - Protect group balance during discussion.
Scheduling	- Things are scheduled in a linear way to handle with in a sequent order; - Deadlines set and Gantt charts are often used; - Expect others to act also as they do.	- Japan and Singapore tend to favour a strict schedule like Anglo-Saxon countries do; - China and India tend to be more flexible, accepting interruptions, changes, rearrangements, multitasking, not following the agenda,

Source: adapted from Van Gampelaere (2016).

Organizational/Corporate culture is defined as "*the set of assumptions, beliefs, values, and norms shared by an organization's members*" (Newstrom, 2015:100), and is considered as part of an organization's intangible assets and the source of organizational capability (Grant, 2012). The setting of corporate culture is consciously made by the company's key founders and other important figures (Newstrom, 2015). Also, the factors influencing its formation are also other acting factors like national/social/local culture and the top managers' leading style (Whitaker, 2012) and some elements of professional cultures (Grant, 2012).

The effect of corporate culture is to shape employees' way of thinking and behaving in the organizational context, together with human assets including "*skills/know-how, capacity for* *communication and collaboration, and motivation*" (Grant, 2012:127). Hence, by "*align(ing) the goals of different stakeholders within the organization*" (Grant, 2012: 201), corporate culture works as an internal mechanism for collaboration and control.

One risk in cross-border M&A is cultural clash in the marriage, as what Merck's CEO has said "*Culture eats strategy for lunch!"* (Grant, 2012:202). It is very important that the acquirer manages in a way which work with the organizational culture of the acquired company, instead of working against it. The organizational cultural differences and incompatibility affect a company's management, employee behaviour and motivation, and strategic implementation in local countries (Grant, 2012; Roberts , 2011; Cartwright & Cooper, 1993).

The failure of uniting the two deal-makers to work together due to big cultural differences may cause both internal and external issues. Internally, there may be low morale and low productivity, conflicted goals and high turnover rate, while externally, low quality of customer service, unhappy stakeholders and unfriendly press (Sherman & Hart, 2009).

In China, **Guanxi** (relationship), according to Yu, et al. (2016) refers to the a person's network to influence the progress of a decision, a situation, or other things in Chinese society; Guanxi represents the mutual relationship between two people and it is reciprocal as when a person has done a favor for another, this receiver gets return for a favor from this person when it is necessary. It is so personal and confined to the individuals themselves that their trust, support and loyalty will just be given to their "guanxi" instead of the company they work for.

Under such circumstances, one major risk of acquiring a Chinese company is that it fails to acquire "*trust of the employees and management*", which "*may soon result in the target becoming an empty shell after key ... managers have left, taking their customers and subordinates with them*" (Van Gampelaere, 2016:332).

2.4.9 Cross-border M&A in China

In cross-border M&A in China, Yu, et al. (2016) share similar perspectives on risks. A foreign company's management after M&A in China fails due to many reasons but the ones standing out are:

A. wrong strategies;

B. strategies non-localized;
C. wrong market entry and expansion timing;
D. inappropriate control over local practices;
E. misunderstanding of local environment and competition;
F. culture mismatches.

Many authors think, the management failures in China are particularly country based. Western countries encountered their waterloos attributing to:

a) changing policies in China (Yu, et al., 2016; Hofer & Ebel, 2007);
b) extremely fast changing market conditions in China (Yu, et al., 2016; Kedl, 2017; Hofer & Ebel, 2007);
c) increasing competition intensity in China (Yu, et al., 2016; Kedl, 2017);
d) difference in accounting and taxation practices (Yu, et al., 2016);
e) incompatible culture and management styles (Yu, et al., 2016; Kedl, 2017; Child & Warner, 2003; Lynton, 2013; Ma, 2014);
f) lack of knowledge about Chinese business practices (inflated information, paper-only sales, hidden related parties), or just totally buy in everything reported (Lynton, 2013; Kedl, 2017; Child & Warner, 2003)
g) lack of knowledge about/ underestimate guanxi/relationship's influence on business success (Yu, et al., 2016; Child & Warner, 2003; Lynton, 2013; Hofer & Ebel, 2007; Kedl, 2017).

2.5 Case Study Methodology

In business studies, cases have been common tools to digest business concepts and theories ((Wilson & Gudmundsdottir, 1987). Yin (2003) thinks it is become common and popular in any field of study (Yin, 2003). According to Barnes, et al. (1994), a case can generally from real life events but the formation of a case can be reasonably different. For various usage of the case, cases are open, without a definite answer to related questions raised because of the cases themselves (Barnes , et al., 1994). For this, case studies using for pedagogical purposes present cases with information for students to discuss and learn by combining such information with theoretical framework (Yin, 2003). In class, pedagogical case studies help students to put theory into practice and reach a better understanding on what is just taught rather than digesting the dry theoretical part of any lecture, so that such understanding extend to similar situations/cases which may happen in their late work life (Davis & Wilcock, 2003; Yin, 2003).

2.6 Analysis Tools

1. Framework for proactive and reactive motives for international expansion: analyse internally and externally the factors that drive and impact a company's moves in international expansion.
2. Comparative Analysis: compare the advantages and disadvantages of different market entry and expansion choices.
3. Internal & External Environment Analysis: analyse the market determinants for choose one foreign operation mode over another.
4. Cultural Map: analyze the difference of the national cultures of the UK and China in eight parameters.
5. Cultural Due Diligence Analysis: analyze the organizational culture of both parties of the M&A for their similarity and differences, to predict future integration risks.
6. Context based Case Analysis: analyze case information by linking the context with theoretical knowledge.

2.7 Animation Plan

To use the case study for effective teaching results, guidelines and principles should be laid out. The design of this case intends to focus on the use for small group discussions.

Firstly, students should form a group with five to six members. If there are international students in the class, each group should have at least one international student as group members.

Secondly, before the class, each student should prepare for the class discussion by reading carefully about the case description and the literature related to the class/course. Students should also proactively search for more information to fully understand some concepts and other case-related information.

Thirdly, as the case problems would be given before the class, each student should also try to organize generally his/her own answer to each question to have a productive discussion in the class. Also, it would be helpful in resolving their doubts during the class.

Fourthly, when class starts, and related theories are given by the professor, student should discuss in small groups first and after a given time, they propose their ideas and perspectives, so the professor can conclude different views from each group and clear some doubts. Later, students are given instructions by the professor in answering each question. Most importantly, the professor should always be there for the students, giving suggestions and helping students out.

Below is a possible teaching plan for the case study, which takes two classes (80 minutes per class) or 160 minutes:

Stage 1

Objectives: Preparation (Note: This should be given instructions before the start of the lecture.)
Time: Not defined (depending on each student's situation)
Tasks:
- Read the case, with the thought of finding explanation for the case questions.
- Proactively search further information for the case;
- Find relevant theories in the field of the course, especially the literature recommended to read;
- Prepare personal ideas on resolving the questions;
- Exchange perspectives with other group members.

Stage 2

Part 1: The acquirer and motives for international expansion; resolution of Question 1.
Time: 20 minutes.
Tasks:
- present theoretical background;
- In-class discussion by all groups and conclusion of all the discussions;
- Presentation of the analysis and solutions.

Part 2: modes of market entry and expansion and their characteristics; resolution of Question 2.
Time: 20 minutes.
Tasks:
- Present theoretical background information;
- In-class presentation on different mode of market entry and expansion and comparison;

-presentation one the case and conclusion about discussion from the students.

Part 3: M&A and Greenfield investment; resolution of Question 3.

Time: 20 minutes

Tasks:

- presentation on the theories;
- in-class discussion about the case;
- conclusion about the discussion.

Stage 3

Part 1: the role of due diligence in M&A; resolution of Question 4.

Time:20 minutes.

Task:

- presentation on the theories;
- in-class discussion about the case;
- conclusion about the discussion.

Part 2: (national) cultural map; resolution of Question 5.

Time: 15 minutes.

Tasks:

- presentation on the theories;
- in-class discussion about the case;
- conclusion about the discussion.

Part 3: cultural due diligence/comparation of organizational culture; resolution of Question 6.

Time: 20 minutes.

Tasks:

- presentation on the theories;
- in-class discussion about the case;
- conclusion about the discussion.

Stage 4

Objectives: M&A risks in China; resolution of Question 7.

Time: 35 minutes.

Tasks:
- presentation on the theories;
- in-class discussion about the case;
- conclusion about the discussion.

Stage 5

Objectives: Conclusion for the case study.
Time: 10 minutes.
Tasks:
- discussion with students;
- conclusion about the learning, not only the theories but also the application of theoretical knowledge into the case analysis.

2.8 Case Questions

Question 1. Use appropriate framework to analyse what internal and external factors influence Pearson's international expansion.

Question 2. What mode(s) of foreign entry and expansion had Pearson used in China since 2008 and its advantages over similar modes (analyse from their characteristics)?

Question 3. Analyze what external and internal factors influenced Pearson's decision on such choice(s).

Question 4. Judging from what happened after the M&A deal closing, do you think Pearson has done a proper due diligence on GEDU before the acquisition? Please give one example.

Question 5. According to the description of the national cultures of Anglo-Saxon countries and Asian counties, draw a cultural map for the UK and China, and explain their similarities and differences.

Question 6. Try to do cultural due diligence about Pearson and GEDU.

Question 7. From the case, how is Pearson's performance on the management of GEDU? Analyse Pearson's management challenges/downfalls in China (e.g. control, competition, strategy, culture/guanxi).

2.9 Case Resolutions

2.9.1 Question 1.

Use appropriate framework to analyze what internal and external factors influence Pearson’s international expansion.

Resolution reference:

Motives for Pearson’s international Expansion
Reactive Motives 1) Change in the whole economic environment - After financial crisis, most developed countries like the UK, the US and the Europe who are Pearson’s major revenue contributors, suffered from economic downturn. 2) Change in main market’s policies - The North America was the main region where most of the sales of education-related business came from. - In the 2011 Annual Report, the financial figures showed that there was a decline from 64% in 2010 to 60% in 2011 in its biggest market: the US, but due to some policies related to Common Core Standard Initiative, the state governments had tightened their educational budgets. - At the same time, with Pearson’s wide coverage in the US educational system and children courses, there had been controversy for Pearson’s hand reaching to the education of the young generation of the United States. - However, revenues from selected developing countries doubled in the past 5 years. 3) Great market potential in China market - There has been China’s economy booming, with ever increasing GDP in China, and it is being the second biggest economy, with India behind it. - Chinese people spent a huge percentage of their income in education. - The number of Chinese students wanting/planning to study abroad has been huge and increasing. - Also, English has been becoming a global language. 4) Decline in revenue - Pearson traditional printing and publishing markets were shrinking because of the impact of technology and digitalization like iPad, Kindle, especially the great popularity of e-books around the world.

Proactive Motives

1) Profit and market seeking

- As a listed company, it is responsible for all shareholders and financial figures. In its financial statement and strategy statement, it wants to raise profits for all stakeholders, with strategic direction on international expansion to increase sales and revenues.

2) Unique competitive advantage and experience in internationalization

- Pearson Education has always been the biggest revenue contributor and its R&D productive with products and services/systems.
- Via acquisitions on the US companies, it has created a success mode of doing educational business.
- Having enjoyed the great success in the US, it was eager to introduce its products and services to more international markets.

3) Resource/capability seeking

- Numbers in 2011 showed that the amount in Pearson’s acquisitions in the past five years had been reached £2.5bn, and most the acquisitions were on education companies outside its main stream Anglo-American markets, revealing the change of strategic directions.
- It uses international expansion to acquire strategic capability.

2.9.2 Question 2.

What mode(s) of foreign entry and expansion had Pearson used in China since 2008 and its advantages over similar modes (analyse from their characteristics)?

Resolution reference: It is cross-border M&A. This happened in the same industry between the business chain, so it is also call vertical M&A, as Pearson used to be the service provider of GEDU.

M&A’s characteristics: high resource commitment; (the buyer’s) high control (on the seller); low flexibility in exit the market; and low risk of knowledge dissemination.

Compared with M &A, another way of having wholly-own subsidiaries (greenfield investment) also have the characteristics in having high resource commitment; (the buyer's) high control (on the seller); low flexibility in exit the market; and low risk of knowledge dissemination. However, greenfield investment has the advantage of not suffering from any integration work or cultural clashes, but the greatest challenge is that once this mode was chosen, it can take years in building everything from nothing, with greatest resource commitment and lowest flexibility to exit local market.

2.9.3 Question 3.

Analyze what external and internal factors influenced Pearson's decision on such choice(s).

Resolution reference: Externally, based on country overall attractiveness, China is one of the growth markets in Asia Pacific regions. This definition of growth markets means 1) size of the host market and its market potential in the future, 2) political and economic risk in the host country/the stability in the political system and economic development of the host country, 3) the openness of the governmental policies in the host country, 4) the competition situation in the industry where the entrant will enter and expand, 5) the cultural distance between the entrant's country and the host country and 6) the level of development in the host country's infrastructure and all the factors together release a positive signal for foreign countries doing business in China.

Especially, China's GDP, growth speed, percentage of household income that is spent on education, the increasing number of people taking English qualification exams and the market environment and competition situation provide good indicators to a promising future in China for foreign players.

Internally, Pearson has always been on the road of doing international expansion, and they emphases on the importance of the big Chinese market in multiple strategy statement.

Pearson's business in education requires low risk in information dissemination, because education products are mostly intellectual property, with confidentiality and special protection. It cannot risk being copied or stolen by competitors in China where copying has long been an issue.

Also, as an international company with so many products and services and a good reputation in education business industry, Pearson need great control on its acquired assets, which means wholly-owned subsidiaries should be a good choice. At the same time, the higher the level of the control Pearson needs, the lower the flexibility it can require.

As mentioned before, Pearson is a big international company with assets in more than 70 countries around the world and a long history in doing acquisitions, it has enough resources to make any mode of entry and expansion.

2.9.4 Question 4.

Judging from what happened after the M&A deal closing, do you think Pearson has done a proper due diligence on GEDU before the acquisition? Please give one example.

Resolution reference: No, they have not done enough due diligence.

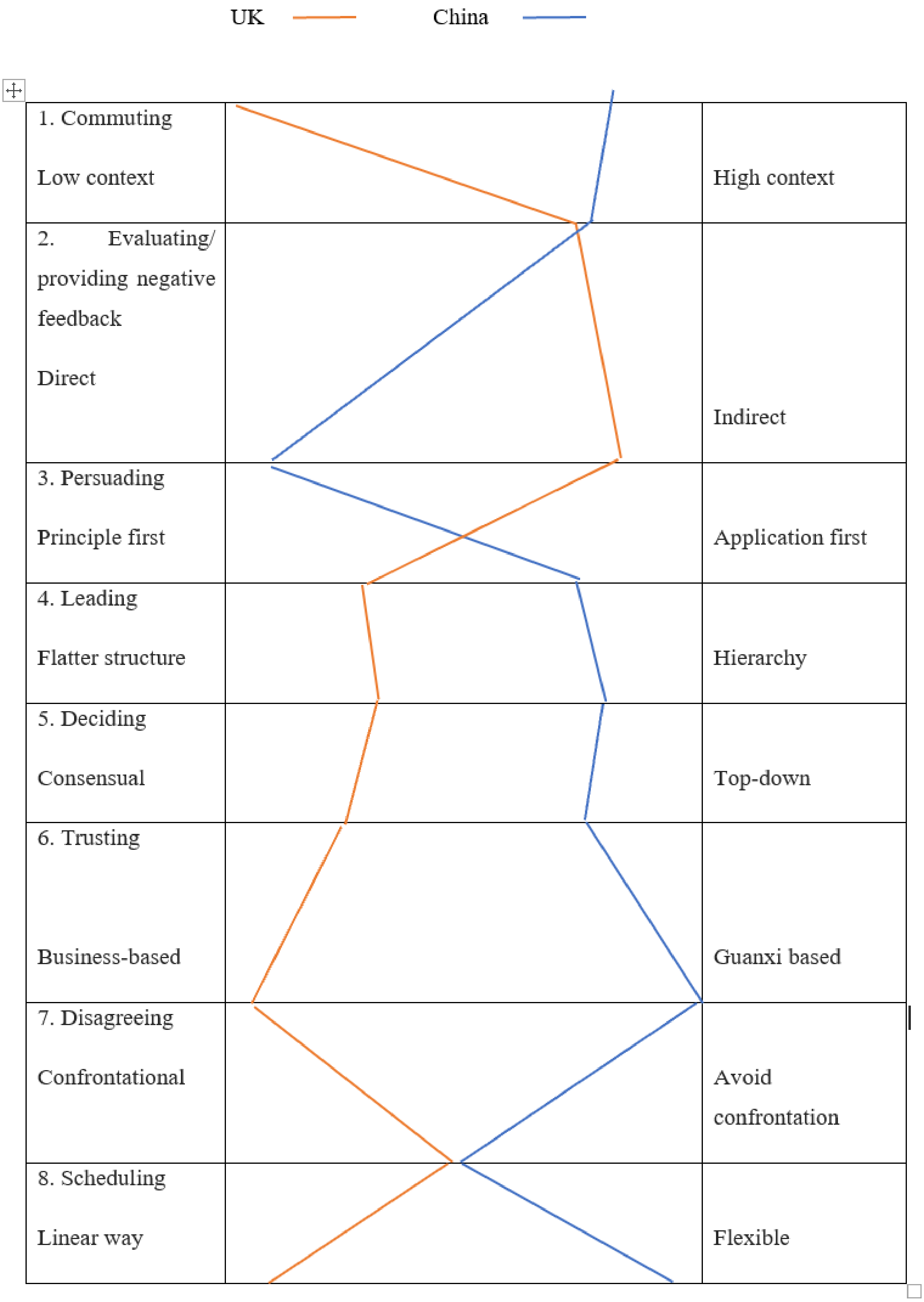
1) Due diligence process was tempered because only after the official announcement of the acquisition, US Securities and Exchange Commission reported there had been insider trading in GEDU.

2) Due diligence was not done enough by Pearson because it did not realize the importance of GEDU’s employees’ guanxi network in the road to GEDU‘s business success.

2.9.5 Question 5.

According to the description of the national cultures of Anglo-Saxon countries and Asian counties, draw a cultural map for the UK and China, and explain their similarities and differences, by referring to Table 5.

Resolution reference: UK and China are similar when to disagree and evaluate, avoiding confrontation and giving negative feedback in an indirect way, but the way UK and China communicate, persuade, lead, decide and schedule is quite different. UK people tend to communicate directly, persuade to work tasks out, build trust via business activities and schedule work in a linear way. For Chinese, communication tends to be based on context, persuading others on principles and rules, trusting others via personal network/guanxi, and work schedules can be flexible and to be changed any time (see the Cultural Map below).



2.9.6 Question 6.

Try to do cultural due diligence about Pearson and GEDU.

Resolution reference:

Cultural Due diligence		
Attitudes and mental processes - how people feel and think	Pearson	Pound to work in the biggest educational company; Work/life balance.
	GEDU	The company is a small company and has the origin of being managed by families and friends.
Behaviour - what actions get performed and rewarded	Pearson	Professional and best in the industry. Provide added value to the stakeholders.
	GEDU	Provide the customers the best services; Meet sales targets. Rewards are usually money and promotions.
Functions - how people do things	Pearson	The executive level decides. Many layers of managers. As a publicly listed company, it must respond to financial figures and shareholders' investment. Numbers matter, and efficiency and cut expending is always on agenda. Risk management is important. People should follow procedures or standardized practices or systems, doing what as planned.
	GEDU	They worked hard and fought with each other hand by hand, making decisions by discussions and usually decided by the leader (the most powerful in the company). Some responsibilities were not clearly defined and delegated.

		Decisions were usually made informally, and procedures were not always standardized. It adopts local accounting principle and most finance was managed in cashes. The mission is to get things done for the "family". It tolerates dirty tricks if it gets its business goal. Guanxi is very important, working as the secret of success. The front-line teachers' professionality and reputation, and the marketing strategy became the sword in the fierce competitive industry. For GEDU's franchisees, usually they have close relationship with local educational authorities and public-school deans, whom become the source for exclusive advertiser in local markets.
Norms - what rules get enforced	Pearson	Brave, imaginative, decent and accountable.
	GEDU	Caring, dedicated, innovation, pride, passion and competitiveness.
Structures - how the above are organized and repeated	Pearson	The structure of any publicly listed company with layers of management.
	GEDU	The headquarters directly managed divisions and franchisees.
Symbols	Pearson	"*Always learning.*"
	GEDU	

- what images and phrases have special meaning		No official one, but emphasis on quality, professionality and good services.
History -what stories and traditions get passed on to future generations	Pearson	Firstly, a construction company, then a publishing and educational company, and then shifting its focus only on education, Pearson is now the world's biggest educational company; Presence in 70 countries and more than 32,000 employees around the globe; -Providing educational products and services to teachers, institutions and professional work places about contents, assessment, qualifications.
	GEDU	The company was found by husband and wife, brothers and sisters and friends. As a young passionate entrepreneur and idealist, the founder Zhang Yongqi wanted to provide the customers the best services.

2.9.7 Question 7.

From the case, how is Pearson's performance on the management of GEDU? Analyze Pearson's management challenges/downfalls in China (e.g. control, competition, strategy, and culture/guanxi).

Resolution reference:

I. Pearson's performance:

Strategic goal was not accomplished. Before the acquisition, Pearson wanted to cover all the services related to English language, test and qualification training for people in all age groups. However, as the case description, such effort was not rewarded with promising results: the performance of GEDU during these few years under the ownership and control by Pearson is mixed. In 2017, GEDU's 2016-financial-figure was only equivalent to the amount of its 2008-revenue, without growth in a growing industry, which cut GEDU's value into only 1/3 of its original one. Also, synergies between GEDU and other Pearson's assets like Dell English (which had been closed down in 2014) and Wall Street English did not reach the expected amount.

In 2017 revenue dropped. In 2017, Pearson divested GEDU and sold it to a Chinese education group in $80 million dollar, with a huge loss.

II. Pearson's management challenges/downfalls in China

***1)* Inappropriate control over local practices**

After acquisition, Pearson started to rein control over GEDU's finance, policies, administration and operations, by installing Oracle system that is too complicated for private learning centres and adopting standardized procedure which caused GEDU's lack of efficiency in communication and operations, and low productivity.

Later, Pearson changed GEDU's structure into matrix structure, which led to more managing level personnel and not enough front-lines employees, lack of clearness in responsibilities and slowness in responding to extremely fast changing market conditions in China.

***2)* Misunderstanding of local environment and competition**

Person's strategy of promoting PTE was being contradicted to GEDU's current competitive advantage and undermining its own asset.

They lacked understanding of the true needs of local customers who just want grades fast and rather easily.

They were not being cautious of the increasing competition intensity of Chinese educational markets where entry barrier in English language teaching industry is quite low. Instead of raising competition barrier, it created penetration opportunities for competitors to diluted GEDU's concentrated market.

***3)* Strategies non-localized**

During Pearson's management on GEDU, decisions were made on top but implementation by local employees who has little power in the decision-making process; and Pearson were not taking much feedback from the front-line employees.

Example 1: Before, passionate teachers learned about the products and its characteristics and made local adaptation to meet Chinese students' actual needs; however, Pearson preferred local teachers to teach standardized content developed based on non-local context and customer needs.

Example 2:
It did not support online education business that local front-line marketing experts think will meet market trends. It missed the best timing to dominate Chinese online education and disappointed a great number of good technical and professional employees and made them leave.

Pearson think GEDU's development of online business and intensive advertising in the market is not necessary because they have been such a big name with high reputation. GEDU considered it not knowing the competitiveness level in Chinese market and an ignorance of their local voices. Moreover, Pearson overruled such proposal from the top and made actions to dispose the project: to sell out the online education business. This caused demotivation among employees and even, disappointment, which result into the whole team left the company.

***4)* Culture mismatches**
Based on Question 4, the most difference between Pearson and GEDU's cultures is the way people do things.

Influenced by UK's national culture and its own long history, Pearson tends to be very structured, following procedures and plans, while GEDU, a comparatively small company with short history, has a proud, passionate and competitive culture nurtured by families and friends who have developed the company from a family business into a Nasdaq listed company with directly managed divisions and hundreds of franchises in China, in spite of the ever changing and increasingly competitive market environment.

Pearson's inappropriate control over local practices, mmisunderstanding of local environment and competition, and strategies non-localization was part of the cultural clashes.

However, here one more thing is a special factor in Chinese business: guanxi/relationship’s influence on business success.

From the case description, it is known that Guanxi in GEDU’s success in developing the brand:

- The brand was developed successfully with years’ nurturing by all the dedicated employees, especially the front-line training teachers who also devoted their time and effort…...
- ……The front-line teachers’ professionality and reputation, and the marketing strategy became the sword/competitive advantage in the fierce competitive industry……
- ……In 2010, GEDU had a company business network comprised 66 directly operated and 226 franchised learning centres. For those franchisees, usually they have close guanxi/relationship with local educational authorities and public-school deans, whom become the source for exclusive advertiser in local markets.

However, after the acquisition, due to Pearson’s overcontrol, ignorance of local voices and other similar situations, there have been high turnover in employees, especially in times after the announcement of the acquisition, adoption of the oracle system, during the introduction and promotion of PTE exam when conflicts arose, the resign of the GEDU founder Zhang, the sellout of online education business, the introduction of matrix structure, the reduction of cost in using experienced and expensive teachers,

People left, feeling unvalued. People left, and took with them their students, clients, reputation, experiences and network, making GEDU an empty shell without no talents and neither guanxi in building its success.

2.10 Management Insights from the Case Study

In today fast changing business world, survival and growth of any company is not just about acting in their home country but in other countries and in the world. There is impossible for any firm to isolate itself in the global world. International expansion and globalization are a must for many companies.

In Sun Tzu's Art of War (Sun, 2012: 30), “*If you know the enemy and know yourself, you need not fear the result of a hundred battles*”. To know where it stands, its environment, its competitors, and itself is important for the success of any firm in any strategic move in the road of international entry and expansion.

To know is important. For any company, knowing its own resources, capability, competitive advantage, corporate culture, management styles and all other factors empowers a company a good start for international expansion.

Without such, in the road to conquer the world, it may choose wrong strategy, wrong partners, wrong management moves or be lost in the extremely changing foreign environment.

In M&A, to know is extremely important. As have mentioned in theories, to know by conducting good due diligence prepares an acquirer about future challenges and risks. By knowing well, it can use the known to plan for the upcoming unknow.

After the discussion about Pearson’s experience in China, it is learnt that Pearson did not know better in managing in Chinese territory, especially in the cultural part. Cultural difference has always been blamed for its destructive power in cross-border marriage; it is too subtle, too complicated and too vague, but it influences people’s thoughts and actions, attitudes and behaviors.

If Pearson had known better, it could have change it way it manages in China, including the way it implements its strategy and value talents and their guanxi, the allocation of its power and control, the attitude to local voices and so on. However, it seemed like that as a big international company, Pearson has other thoughts and strategies in mind.

It is thought that it is just a mixture of different factors which make Pearson lost its pace in performing in Chinese market.

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Appendixes

Appendix A. - Interview to GEDU's Employee

Interviewee: GEDU's employee working in GEDU before and after Pearson's acquisition

1. 作为一名教师，你是否觉得光荣？

   是的。

   在中国，老师是一个很神圣的职业，在社会上有比较高的地位，受人尊敬。

   Translation:

   Are you proud of being a teacher in China?

   Yes, for sure.

   In China, teacher is a respectful profession and teachers have high social awareness in society. Chinese value teachers a lot.

2. 在环球雅思工作，你觉得公司文化如何?

   公司的由一群亲戚朋友成立的，文化比较年轻，属于家族式管理。每个人都客客气气的，关系比较好，比较有人情味儿。各个校区就像个小家庭一样，消息传得快，事情完成得也迅速到位，但是同时也竞争大。尤其市场/销售部，招生额很高，压力比较大如果招生不好，可能拿不到奖金或者会被炒。……同时，公司注重培养教师/名师，有培训系统。环雅明白学生想要什么。学生本来就只是想赶紧通过英语考试，拿到成绩然后出国，开学。中国考生的心理就是：快速地踏过雅思分数线要求。环雅明白这个靠培养名师打出名声，并且以此来打广告吸引学生。多年来，教师名师与市场/招生息息相关，这是一种积极的作用，许多学生慕名而来。

   Translation:

   Working in GEDU, how do you feel about the company's culture?

   Well, GEDU is a quite new compared to others; it was founded and managed by a family and some friends, so the atmosphere in the company is quite relaxing. Everyone treated each other nicely; we had a great relationship with each other; like most private companies, we are a bit not formal and down to the earth. In each learning center, each one knows every others, so news spreads fast, as well as communication. For sure, work was always finished with efficiency. However, competition was intensive because top management promoted hard work and set down high goals. For example, our marketing department had to reach a certain (quite high) sales quota every month. If they cannot reach it, they may get fined or fired.

For us teachers, we were provided an informal training system to improve ourselves and ensure teaching quality to students. GEDU understood the phycology of Chinese IELTS exam-takers: they usually only care about how to pass IELTS with a certain score in limited time before enrollment abroad. At that moment, the improvement of English proficiency is important but not the priority. They want teachers who can show them how to improve English but also, the most importantly, get the right score required by the universities abroad.

That's how GEDU success since its creation, knowing It valued us/teachers a lot, inputting time and effort in training teachers, to ensure the delivery of good quality teaching to students.

Over the years, GEDU promotes cooperation between teachers and marketing specialists. Using teaching quality to advertise make positive effect in the company's operations. Many students chose GEDU over our competitor because of our good quality.

被培生收购后，有哪些政策上的变化呢？例如 PTE 推广方面的情况。

PTE 是培生的产品，它想在出国考试市场中分一杯羹。它跟雅思考试最大的不同是：机考。培生想推广该考试，勒令全国各个学校推此考试给学生。可是效果并不怎么好首先，从公司内部来看，本身环雅是做雅思培训发家的，该考试还很新，各个教师都不熟悉，人力成本需要很大，但是培生的支持不够。而且，我们（教师）本身就很忙课时费可是我们的收入来源，谁有时间和心思搞这个呢。我们雅思课程这么多，PTE 招生那么少，干嘛跟自己过不去？其次，这个考试使老师有危机感。由于是机考考试培训中需要使用 Mylad, Cutting Edge 等配套课程，这些课程都是电脑为主，教师的作用大大减少。同时，学生也不习惯这种机考考试。考生都希望赶紧通过达到入学语言要求，就读国外学校。他们只想在短时间拿到雅思成绩单，一个英语能力证明，越快

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越好。他们不想错过开学。PTE 对他们来说太新了。PTE 出成绩似乎是快，可是以前没听说过啊，也没有啥机构老师去做教这个啊，本来时间有限，干嘛冒险投入时间精力去试试呢？ 雅思考试已经那么成熟了，PTE 有点吃不开。其实，我们员工内部就觉得让现有校区推广 PTE 不大好，可是应该也没有谁直接说。那我们也只好该怎样怎样或者另谋出路了。其实，他们应该建立新部门新校区搞这个的。好好培训新教师，或者很有市场。 嗯，就 PTE，为帮助学员达到目标，他们应该培训老师、市场部人员以及所有其他人员。或者这样，学生就选 PTE 了。

Translation:

After the acquisition by Pearson, what changes in GEDU? For example, PTE.

PTE is a product totally developed by Pearson. As a standard exam to test English proficiency, it is set to conquer market share of English test for students planning to study overseas. This is similar to IELTS, but the major difference is that: it is a completely computer-based exam.

Pearson wanted to promote this, requiring all learning centres across the country to advertise it. The result was not very good. Well, the reason is that, firstly, you know, GEDU's success was built on IELTS training, which means that all the teachers are very familiar with everything about IELTS and some teachers have devoted all their career life in teaching it. The sudden order from the management caused some resistance. PTE exam was totally new to us, meaning we have to devoted a lot of effort and time to doing research in how to deliver exam skills to students. we were reluctant to do this because we not only need to work on usual schedules but also need to go extra miles for PTE. It had already quite tiring giving classes to students 8 hours(or more) in a row in one day. Especially, those who want to receive training in ITELS was much more than the ones in PTE. We relied on students' demand for our living. At that time, PTE had not much market attention from students/would-be exam takers. We feel it so we didn't put much effort in responding the management's decision. We just did what was asked. Secondly, PTE was not welcomed by us also because we feel being threaten by such a computer-based exam, especially when we had to adopt standard systems like MyLad, Cutting Edge, etc. We teachers felt our participation got reduced and we felt our job was getting taken over. ……Well, also, it was not with students needs. Students barely heard about PTE. They (Chinese students) who want an English qualification usually just need a piece of paper proving their language proficiency in a short time so as not to miss their school enrollment. They want it fast and rather easily. PTE was still very new to them, without prestigious brand and professional teachers to help them to do it quickly. They had limited time to get the English proof, so they rather not took the risks of trying PTE. They were afraid of missing the deadline. …… well we had expressed some unhappiness but not directly to the management; we knew about the great difficulty in promoting PTE in existing learning centers which was famous for IELTS training. Instead, we were all thinking about the future of our career. Some hanged on in the company; some just left to our competitors; some were brave and grouped with others to open their own learning centers and built their brand; some…….

Later we see PTE was not very successful. Personally, I think they should have done it in other ways, like setting up new learning centers only promoting PTE, recruiting new teachers and training them for it, etc. It may work better. They needed to train the teachers, marketing specialists and all other employees well about PTE, so that potential PTE exam takers could reach their objectives. Then many people would have chosen PTE over IELTS.”

收购后，培生对员工教师的情况，你个人感觉如何？
上面说过，环雅很看重培养名师。在环雅，对新老师有许多培训，因为环雅需要保证教学质量，满足学生需求。那些受学生欢迎的老师通常受到重用，也会升职加薪。我就很喜欢环雅的培训系统。许多新老师都受益于此。但是，收购后，不知为什么，也可能是上面管理太乱。可能是培生太大了，没有精力投入资源到环球雅思上，管理力度不够。某些管理方面，又做得不够好。例如教师这一块质量参差不齐，培生喜欢招名校毕业生/有国外留学经验的毕业生，例如常春藤名校等。但是其实，教学 并不是说你毕业于名校，你就能教得好。……但是教学，不一样。名校出身当然好，但是名校毕业不代表会教书。没有培训这些新师就让其上岗，其实很大程度上教学质量没有保障。教学水平是从锻炼积累以及和学生的互动中提高的。没有适当的培训，直接让名校毕业生上课，一开始好听是好听，可是上课下来，学生的感受如何，成绩有没有提高，是很容判断教学质量如何的。由于新师众多，成本不高，我们老教师受到冷落。课时变少。甚至，有些名师因为有多年经验，课时费高而不受到重用。老师也只好从

中想法子向学生推销私课，甚至自己出来搞培训机构。老教师受欺压，没有课上，因为公司觉得他们太贵了，成本太高了。很多名师因为这样气不过，都走了。带走了很多资源。甚至其他部门也是，跟着名师一起走，然后又带走一部分同事。另起炉灶去了。培生也没做啥，就不断招人招人这样子。没想过要改变什么挽留这些有声望的老师。因为似乎他们只在乎压缩成本，没有太在乎教学质量。当时，听说老大也是气不过，觉得战略做事方式不一样，也走了。

……另外，受诸多因素影响，培生为了削减成本，提高收入，竟然连教师的打印纸张都限制，连打印两张纸都需要提前一周预定，有时即使预定了，还不能及时送到！这大大影响了教学质量的输出,老师学生都不高兴。

……

收购后，环球被培生搞得效率慢，大家干劲不足，各种吐糟培生弄得环雅一团糟。

…..

Translation:

After the acquisition, how do you personally feel working as part of Pearson? Any difference? As said before, GEDU valued teachers a lot and it trained and developed teachers to be famous among teachers, according to each of their skills. Those especially those who have high popularity among students were promoted the most in payment and titles. In GEDU, for teachers, especially new teachers, there had been frequent training sessions, mostly given by experienced well-known teachers, so that teaching quality can be ensured. I like this system a lot and I personally benefited from such training. ……yet, well, after the acquisition, management became a bit, well, messy. Personally, I felt like this. This is maybe because Pearson is so big that they didn’t have enough energy on management GUDU, so they did not put enough thoughts, support and resources on it. So, it is not enough. For example, for As a teacher, I think teaching quality was mixed. For Pearson, they tent to hire those who graduated from well-known universities abroad(even Ivy Leagues), even they cost more. It like the idea but these newly-graduates were not well-trained by the company. ……but teaching is not about where you graduate, but how you deliver the content and knowledge. A lack of training for those new employees does not help ensure the quality of education. Teaching quality is gradually improved via practices. While teaching, feedback with students could help and also receiving training about teaching skills. Without training beforehand, those new teachers who

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graduated from well-known universities may sound very nice among students at the very beginning. But after the class, students can easily experience the teaching quality and tell good or bad. Because of this, many experienced teachers who had decades’ experience got undervalued due to a lack of overseas study experience. Their paid working hours got reduced. Some left the company, bring their fame, customer list and colleagues in other department, especially marketing department; and some sold their own private service to existing students(customers). Pearson just kept filling the hole by recruiting many new teachers. They did not tried the best to retained the famous teachers. It seemed like they just wanted to reduce cost but not paying attention for teaching quality. I heard that, even our leader left because difference in working with them. ……Moreover, I guess many factors made effect and Pearson wanted to reduce cost in printing teaching materials. Before, teachers can print whatever they want for teaching purpose but according to new rules, to print anything required booking 1 week in advance. Sometimes, even having booked, teaching materials could not be timely printed out and teaching process got interrupted. Of course, we teachers were not happy as well as students(customers).

……

It was a bit mass. We all were a bit demotivated. Work did not went well and even slowly; we were not very happy about it.

……

Appendix B. – Slides for Case Resolution

Question 1.

- ➢ Use appropriate framework to analyze what internal and external factors influence Pearson’s international expansion.

Q 1 Resolution references

✓**Reactive Motives**

1) Change in the whole economic environment

After financial crisis, most developed countries like the UK, the US and the Europe who are Pearson’s major revenue contributors, suffered from economic downturn.

2) Change in main market’s policies

The North America was the main region where most of the sales of education-related business came from.

In the 2011 Annual Report, the financial figures showed that there was a decline from 64% in 2010 to 60% in 2011 in its biggest market: the US, but due to some policies related to Common Core Standard Initiative, the state governments had tightened their educational budgets.

At the same time, with Pearson’s wide coverage in the US educational system and children courses, there had been controversy for Pearson’s hand reaching to the education of the young generation of the United States.

However, revenues from selected developing countries doubled in the past 5 years.

Q 1 Resolution references

✓**Reactive Motives**

3) Great market potential in China market

There has been China’s economy booming, with ever increasing GDP in China, and it is being the second biggest economy, with India behind it.

Chinese people spent a huge percentage of their income in education.

The number of Chinese students wanting/planning to study abroad has been huge and increasing.

Also, English has been becoming a global language.

4) Decline in revenue

Pearson traditional printing and publishing markets were shrinking because of the impact of technology and digitalization like iPad, Kindle, especially the great popularity of e-books around the world.

Q 1 Resolution references

✓**Proactive Motives**

1) Profit and market seeking

As a listed company, it is responsible for all shareholders and financial figures. In its financial statement and strategy statement, it wants to raise profits for all stakeholders, with strategic direction on international expansion to increase sales and revenues.

2) Unique competitive advantage and experience in internationalization

Pearson Education has always been the biggest revenue contributor and its R&D productive with products and services/systems.

Via acquisitions on the US companies, it has created a success mode of doing educational business.

Having enjoyed the great success in the US, it was eager to introduce its products and services to more international markets.

Q 1 Resolution references

✓**Reactive Motives**

3) Resource/capability seeking

Numbers in 2011 showed that the amount in Pearson's acquisitions in the past five years had been reached £2.5bn, and most the acquisitions were on education companies outside its main stream Anglo-American markets, revealing the change of strategic directions.

It uses international expansion to acquire strategic capability.

Question 2.

- What mode(s) of foreign entry and expansion had Pearson used in China since 2008 and its advantages over similar modes (analyze from their characteristics)?

Q 2 Resolution references

- ✓It is cross-border M&A. This happened in the same industry between the business chain, so it is also call vertical M&A, as Pearson used to be the service provider of GEDU.
- ✓M&A’s characteristics: high resource commitment; (the buyer’s) high control (on the seller); low flexibility in exit the market; and low risk of knowledge dissemination.

Q 2 Resolution references

- ✓Compared with M &A, another way of having wholly-own subsidiaries (greenfield investment) also have the characteristics in having high resource commitment; (the buyer’s) high control (on the seller); low flexibility in exit the market; and low risk of knowledge dissemination. However, greenfield investment has the advantage of not suffering from any integration work or cultural clashes, but the greatest challenge is that once this mode was chosen, it can take years in building everything from nothing, with greatest resource commitment and lowest flexibility to exit local market.

Question 3.

➢ Analyze what external and internal factors influenced Pearson's decision on such choice(s).

Q 3 Resolution references

✓Resolution reference: Externally, based on country overall attractiveness, China is one of the growth markets in Asia Pacific regions. This definition of growth markets means 1) size of the host market and its market potential in the future, 2) political and economic risk in the host country/the stability in the political system and economic development of the host country, 3) the openness of the governmental policies in the host country, 4) the competition situation in the industry where the entrant will enter and expand, 5) the cultural distance between the entrant's country and the host country and 6) the level of development in the host country's infrastructure and all the factors together release a positive signal for foreign countries doing business in China.

✓Especially, China's GDP, growth speed, percentage of household income that is spent on education, the increasing number of people taking English qualification exams and the market environment and competition situation provide good indicators to a promising future in China for foreign players.

Q 3 Resolution references

- ✓…..Internally, Pearson has always been on the road of doing international expansion, and they emphases on the importance of the big Chinese market in multiple strategy statement.
- ✓Pearson’s business in education requires low risk in information dissemination, because education products are mostly intellectual property, with confidentiality and special protection. It cannot risk being copied or stolen by competitors in China where copying has long been an issue.
- ✓Also, as an international company with so many products and services and a good reputation in education business industry, Pearson need great control on its acquired assets, which means wholly-owned subsidiaries should be a good choice. At the same time, the higher the level of the control Pearson needs, the lower the flexibility it can require.
- ✓As mentioned before, Pearson is a big international company with assets in more than 70 countries around the world and a long history in doing acquisitions, it has enough resources to make any mode of entry and expansion.

Question 4.

- ➢ Judging from what happened after the M&A deal closing, do you think Pearson has done a proper due diligence on GEDU before the acquisition? Please give one example.

Q 4 Resolution references

✓ No, they have not done enough due diligence.

1) Due diligence process was tempered because only after the official announcement of the acquisition, US Securities and Exchange Commission reported there had been insider trading in GEDU.

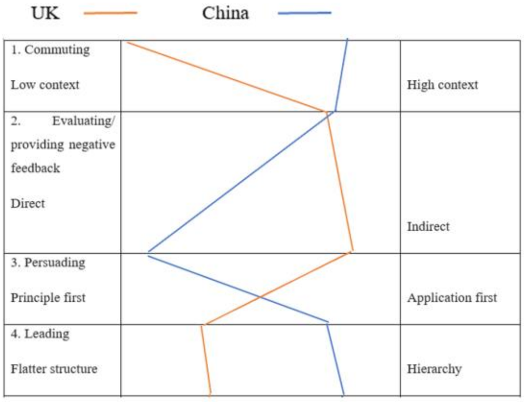
2) Due diligence was not done enough by Pearson because it did not realize the importance of GEDU's employees' guanxi network in the road to GEDU's business success.

Question 5.

➢ According to the description of the national cultures of Anglo-Saxon countries and Asian counties, draw a cultural map for the UK and China, and explain their similarities and differences, by referring to Table 5.

Q 5 Resolution references

- ✓UK and China are similar when to disagree and evaluate, avoiding confrontation and giving negative feedback in an indirect way, but the way UK and China communicate, persuade, lead, decide and schedule is quite different. UK people tend to communicate directly, persuade to work tasks out, build trust via business activities and schedule work in a linear way.
- ✓For Chinese, communication tends to be based on context, persuading others on principles and rules, trusting others via personal network/guanxi, and work schedules can be flexible and to be changed any time (see the Cultural Map below).



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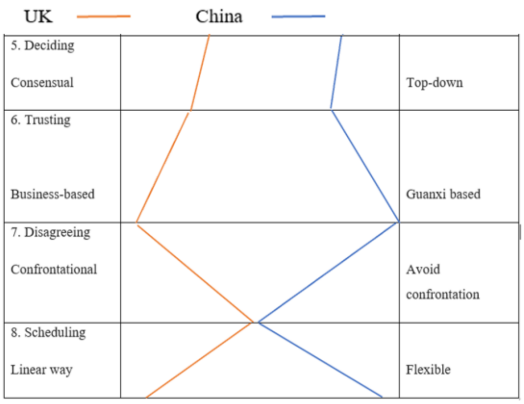

Question 6.

➢ Try to do cultural due diligence about Pearson and GEDU.

Q 6 Resolution references

• Cultural due diligence on GEDU

Cultural Due diligence		
Attitudes and mental processes - how people feel and think	Pearson	Pound to work in the biggest educational company; Work/life balance.
	GEDU	The company is a small company and has the origin of being managed by families and friends.
Behaviour - what actions get performed and rewarded	Pearson	Professional and best in the industry. Provide added value to the stakeholders.
	GEDU	Provide the customers the best services; Meet sales targets. Rewards are usually money and promotions.

Q 6 Resolution references

- Cultural due diligence on GEDU

Functions - how people do things	Pearson	The executive level decides. Many layers of managers. As a publicly listed company, it must respond to financial figures and shareholders' investment. Numbers matter, and efficiency and cut expending is always on agenda. Risk management is important. People should follow procedures or standardized practices or systems, doing what as planned.

Q 6 Resolution references

- Cultural due diligence on GEDU

Functions - how people do things	GEDU	They worked hard and fought with each other hand by hand, making decisions by discussions and usually decided by the leader (the most powerful in the company). Some responsibilities were not clearly defined and delegated. Decisions were usually made informally, and procedures were not always standardized. It adopts local accounting principle and most finance was managed in cashes. The mission is to get things done for the "family". It tolerates dirty tricks if it gets its business goal. Guanxi is very important, working as the secret of success. The front-line teachers' professionality and reputation, and the marketing strategy became the sword in the fierce competitive industry. For GEDU's franchisees, usually they have close relationship with local educational authorities and public-school deans, whom become the source for exclusive advertiser in local markets.

Q 6 Resolution references

- Cultural due diligence on GEDU

Norms - what rules get enforced	Pearson	Brave, imaginative, decent and accountable.
	GEDU	Caring, dedicated, innovation, pride, passion and competitiveness.
Structures - how the above are organized and repeated	Pearson	The structure of any publicly listed company with layers of management.
	GEDU	The headquarters directly managed divisions and franchisees.
Symbols	Pearson	"*Always learning.*"

Q 6 Resolution references

- Cultural due diligence on GEDU

History -what stories and traditions get passed on to future generations	Pearson	Firstly, a construction company, then a publishing and educational company, and then shifting its focus only on education, Pearson is now the world's biggest educational company; Presence in 70 countries and more than 32,000 employees around the globe; -Providing educational products and services to teachers, institutions and professional work places about contents, assessment, qualifications.
	GEDU	The company was found by husband and wife, brothers and sisters and friends. As a young passionate entrepreneur and idealist, the founder Zhang Yongqi wanted to provide the customers the best services.

Question 7.

- From the case, how is Pearson’s performance on the management of GEDU? Analyze Pearson’s management challenges/downfalls in China (e.g. control, competition, strategy, and culture/guanxi).

Q 7 Resolution references

I. Pearson’s performance:

✓Strategic goal was not accomplished. Before the acquisition, Pearson wanted to cover all the services related to English language, test and qualification training for people in all age groups. However, “such effort was not rewarded with promising results: the performance of GEDU during these few years under the ownership and control by Pearson is mixed. In 2017, GEDU’s 2016-financial-figure was only equivalent to the amount of its 2008-revenue, without growth in a growing industry, which cut GEDU’s value into only 1/3 of its original one. Also, synergies between GEDU and other Pearson’s assets like Dell English (which had been closed down in 2014) and Wall Street English did not reach the expected amount.”

✓In 2017 revenue dropped. In 2017, Pearson divested GEDU and sold it to a Chinese education group in $80 dollar, with a huge loss.

Q 7 Resolution references

II. Pearson’s management challenges/downfalls in China

1) Inappropriate control over local practices

✓After acquisition, Pearson started to rein control over GEDU’s finance, policies, administration, operations, by installing Oracle system that is too complicated for private learning centres and adopting standardized procedure which caused GEDU’s lack of efficiency in communication and operations, and low productivity.

✓Later, Pearson changed GEDU’s structure into matrix structure, which led to more managing level personnel and not enough front-lines employees, lack of clearness in responsibilities and slowness in responding to extremely fast changing market conditions in China.

Q 7 Resolution references

II. Pearson’s management challenges/downfalls in China

***2)* Misunderstanding of local environment and competition**

✓Person’s strategy of promoting PTE being contradicted to GEDU’s current competitive advantage and undermining its own asset.

✓Lack of understanding of the true needs of local customers who just want grades fast and rather easily.

✓Not being cautious of the increasing competition intensity of Chinese educational markets where entry barrier in English language teaching industry is quite low. Instead of raising competition barrier, it created penetration opportunities for competitors to diluted GEDU’s concentrated market.

Q 7 Resolution references

II. Pearson's management challenges/downfalls in China

***3)* Strategies non-localized**

✓During Pearson's management on GEDU, decisions were made on top but implementation by local employees who has little power in the decision-making process; and Pearson were not taking much feedback from the front-line employees.

✓Example 1: Before, passionate teachers learned about the products and its characteristics and made local adaptation to meet Chinese students' actual needs; however, Pearson preferred local teachers to teach standardized content developed based on non-local context and customer needs.

Q 7 Resolution references

II. Pearson's management challenges/downfalls in China

***3)* Strategies non-localized**

✓Example 2: It did not support online education business that local front-line marketing experts think will meet market trends. It missed the best timing to dominate Chinese online education and disappointed a great number of good technical and professional employees and made them leave.

✓Pearson think GEDU's development of online business and intensive advertising in the market is not necessary because they have been such a big name with high reputation. GEDU considered it not knowing the competitiveness level in Chinese market, and an ignorance of their local voices. Moreover, Pearson overruled such proposal from the top and made actions to dispose the project: to sell out the online education business. This caused demotivation among employees and even, disappointment, which result into the whole team left the company.

Q 7 Resolution references

II. Pearson's management challenges/downfalls in China

***4)* Culture mismatches**

✓Based on Question 4, the most difference between Pearson and GEDU's cultures is the way people do things.

✓Influenced by UK's national culture and its own long history, Pearson tends to be very structured, following procedures and plans, while GEDU, a comparatively small company with short history, has a proud, passionate and competitive culture nurtured by families and friends who have developed the company from a family business into a Nasdaq listed company with directly managed divisions and hundreds of franchises in China, in spite of the ever changing and increasingly competitive market environment.

✓Pearson's inappropriate control over local practices, mmisunderstanding of local environment and competition, and strategies non-localization was part of the cultural clashes.

Q 7 Resolution references

II. Pearson's management challenges/downfalls in China

***4)* Culture mismatches**

✓However, here one more thing is a special factor in Chinese business: guanxi/relationship's influence on business success.

✓From the case description, it is known that Guanxi in GEDU's success in developing the brand:

✓"*The brand was developed successfully with years' nurturing by all the dedicated employees, especially the front-line training teachers who also devoted their time and effort ……The front-line teachers' professionality and reputation, and the marketing strategy became the sword/competitive advantage in the fierce competitive industry……In 2010, GEDU had a company business network comprised 66 directly operated and 226 franchised learning centres. For those franchisees, usually they have close guanxi/relationship with local educational authorities and public-school deans, whom become the source for exclusive advertiser in local markets……*"

Q 7 Resolution references

II. Pearson's management challenges/downfalls in China

***4)* Culture mismatches**

✓However, after the acquisition, due to Pearson's overcontrol, ignorance of local voices and other similar situations, there have been high turnover in employees, especially in times after the announcement of the acquisition, adoption of the oracle system, during the introduction and promotion of PTE exam when conflicts arose, the resign of the GEDU founder Zhang, the sellout of online education business, the introduction of matrix structure, the reduction of cost in using experienced and expensive teachers,

✓People left, feeling unvalued. People left, and took with them their students, clients, reputation, experiences and network, making GEDU an empty shell without no talents and guanxi in building its success.