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Shared Services

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Strengthening Early Care and Education

Early learning lasts a lifetime. We now have a strong body of evidence that learning is especially significant in the first five years of life and affects brain architecture for years to come.[1] That's why high-quality early care and education (ECE) is vital for children's academic and social success.[2] And given that more than 60 percent of U.S. mothers of children younger than 5 years old are working and that 73 percent of those children are regularly in child care, making sure that ECE is a healthy, sustainable industry delivering high-quality services is critical for the nation.

But delivering a high-quality program is expensive. Programs must offer competitive salaries to attract and retain teachers with the education and experience needed to foster positive child development. Employees need ample opportunities for supervision, mentoring, and other professional-development activities. Bilingual services, mental health services, developmental screening, and links to health insurance may be needed.[3] Few market-based ECE programs can secure the stable revenue required for such costs. Many already suffer from poor teacher quality and high turnover.

The Business Challenges

Although vital, the ECE industry is fragile. Most ECE businesses are small and headed by professionals whose expertise is not business expertise. Tuition may be the sole revenue source. In fact, the average child-care center generates about 87 percent of its revenue from parent fees.[4] Compare that with public colleges and universities, which rely on tuition fees for only 36 percent of revenue. Although there is some government support for ECE programs, it represents only a small percentage of ECE expenditures.[5]

Generating the dollars needed to establish and sustain high-quality early care and education programs has never been easy, and it is harder in a recession. For parents in many communities, especially low-income ones, price sensitivity is high, which means that programs often cannot charge fees high enough to cover costs and still attract enough enrollees.[6] Because licensing and good practice require high staff-to-child ratios, good programs are expensive, and full enrollment is needed to pay for them. In attempting to remain economically viable, early care and education programs face what we term the "iron triangle": setting fees high enough to cover costs, collecting fees (or publicly funded vouchers) in full and on time, and maintaining full enrollment. The need to simultaneously meet all three requirements makes programs especially vulnerable to market conditions.

ECE programs are usually small businesses. Nationwide, the average child-care center serves fewer than 70 children. More than 80 percent employ 20 workers or fewer.[7] At many centers, managing finances is just one of numerous tasks that directors or assistant directors handle. They must react to scores of demands every day (staff needing supervision, a child who won't stop biting, an anxious new parent, a clogged toilet, an ill cook). Fiscal management often gets pushed to the bottom of the list.

Also, to ensure sustainability, ECE managers must tap many funding streams, interact with multiple public and private agencies, and market their services. To keep dollars flowing, they need to comply with a dizzying array of funding requirements while meeting complex quality standards. Without careful, consistent attention to the business side, revenues decline and programs falter.

Shared Services Alliances

To address the issue, a growing group of ECE leaders are developing a management approach called *shared services*. The idea is that a shared infrastructure can give programs access to professional business support that functions at an efficient scale but lets programs maintain their status as independent providers.

Shared services alliances have been formed that include both center- and home-based providers and numerous services, business models, and sponsoring agencies. (See "Potential Shared Services.")

Potential Shared Services

- Quality support (classroom and child assessment, curriculum support)
- Management/administration (team of directors/supervisors)
- Fiscal (billing and fee collection)
- Marketing and enrollment
- Fund development
- Human resources and staffing
- Health/mental health/ family support
- Food services
- Purchasing goods and services

In Chattanooga, Tennessee, the Children's Home, a large child-development center, leads the effort. Before offering management services to the 10 community-based programs in its network, the Children's Home had its own staff managing money and supporting program quality. Creating the network involved restructuring and expanding the staff to reach an additional 370 offsite children.

In other communities, similar economies of scale can be found in a range of intermediary organizations both inside and outside early care and education, including child-care resource and referral agencies, family child-care networks, and nonprofit umbrella organizations. Some ECE programs join forces and create collectively run shared services entities.

As the organizations engaged in shared services create new business models, they also are developing new management tools, including information technology to support fiscal and management tasks and better data collection to guide marketing and enrollment. Additionally, leading shared services organizations are collaborating with other industries to reach scale nationally in functions such as human resources and purchasing.

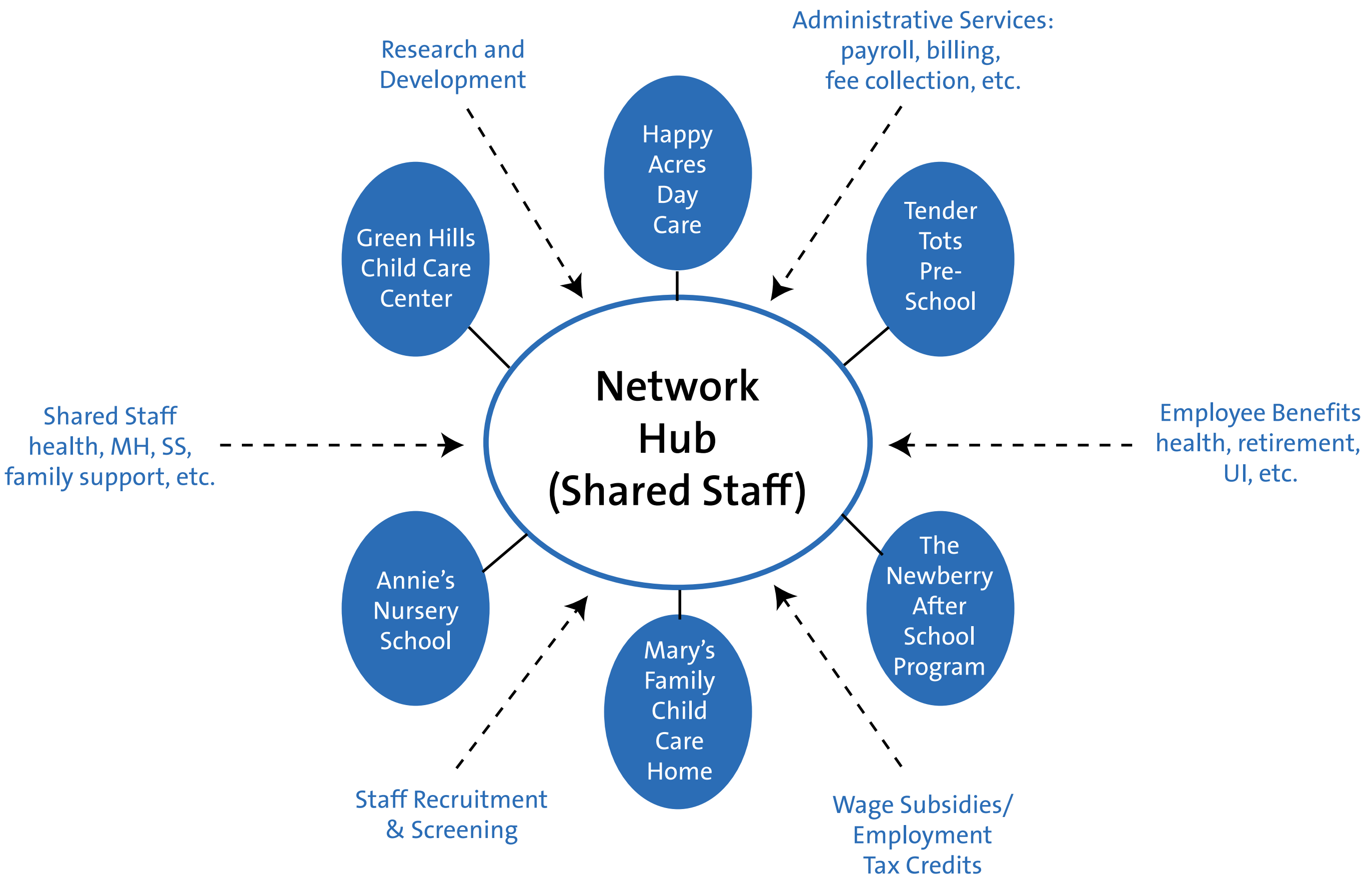
Alliances can make ECE programs financially and programmatically stronger. The small child-care programs that joined up with the Children's Home had previously been struggling financially and were unable to provide high-quality services. Today they not only offer top-quality early learning but are able to link the low-income children and families they serve to comprehensive health, mental health, and social services. Staff members have higher wages and paid health and dental coverage, a pension plan, and a host of other benefits and career opportunities not available to them in the past.[8]

Infant-Toddler Family Day Care (IFDC), an alliance of home-based providers in Fairfax, Virginia, boasts similar results. IFDC includes about 130 family child-care providers, most speaking a primary language other than English. Thanks to a steady income in the alliance, they earn more than their unaffiliated peers. The alliance manages fee collection and helps providers stay fully enrolled. It has strong standards for professional development and specialized training and internship opportunities for non-English speakers. Its home-based providers stay in the child-care field 2.6 times longer than the national average. Among other benefits, the alliance offers parent services such as support groups, parenting education, and substitute care when an alliance provider is ill. (See "Network Hub.")

Small with Scale Advantages

In creating an administrative structure large enough to employ staff with the skills and time to focus on the business side, alliances actually support the small settings that foster good child development. The whole is greater than the sum of its parts. Consider the following:

- the fiscal management and economic strength of a larger organization make it easier for very small businesses to weather economic storms;
- costs in areas such as payroll, benefits management, banking, janitorial, food services, and purchasing are lower;



- the more stable financial and organizational structure, improved compensation, and comprehensive professional-development approach translates into higher-quality education and more family support services; and
- outcomes are better and more easily tracked.

Increased government support and consistent policy direction for early care and education is needed. But the ECE industry also needs to reinvent itself by investing in stronger management models. With careful attention to the business side, market-based early care and education services can build a better future for the nation's children.

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Endnotes

1 J.L. Heckman and D. Masterov, "The Productivity Argument for Investing in Young Children" (working paper no. 5, Invest in Kids Working Group, October 2004); A.J. Rolnick and R. Grunewald, "Early Education's Big Dividends," *Communities & Banking* (spring 2008): 3-5; J. Shonkoff and D. Phillips in *Neurons to Neighborhoods: The Science of Early Child Development* (Washington, DC: National Academy Press, 2000).

2 W. Gilliam and E. Ziegler, *State Efforts to Evaluate the Effects of Prekindergarten: 1977 to 2003* (New Haven: Yale University Child Study Center, 2004), http://nieer.org/resources/research/StateEfforts.pdf; W.S. Barnett and D.J. Ackerman, "Costs, Benefits, and the Long-Term Effects of Preschool Programs," *Community Development: Journal of the Community Development Society* 37, no. 2 (2006).

3 *The Science of Early Childhood Development* (Washington, DC: National Scientific Council on the Developing Child, 2007), http://www.developingchild.net.

4 A. Mitchell, L. Stoney, and H. Dichter, *Financing Child Care in the United States: An Expanded Catalog of Current Strategies* (Kansas City: The Ewing and Marion Kauffman Foundation, 2001).

5 National Institute for Early Education Research reports that 2006 state prekindergarten programs served 942,766 children, one-third outside the public schools. Assuming ECE serves 10 million children, the 628,510 enrolled in school-based pre-K represent just over 6 percent.

6 A. Thorman and C. Scott, *Westchester County 2006 Child Care Utilization Study Final Report* (White Plains, NY: Child Care Council of Westchester, 2007), http://www.childcarewestchester.org/pdf/Westchester_CCReport_ETC.pdf; D. Blau and P. Robins, "Child-Care Costs and Family Labor Supply," *The Review of Economics and Statistics* 70, no. 3 (August 1988): http://www.jstor.org/stable/1926774.

7 The industry has a paid workforce of 2.3 million; 52 percent work in regulated firms. According to Bureau of Labor Statistics 2006 projections, paid jobs in the child-care services sector should grow 38 percent between 2004 and 2014, compared with only 14 percent employment growth for all industries combined.

8 L. Stoney, *Collective Management of Early Childhood Programs: Approaches That Aim to Maximize Efficiency, Help Improve Quality and Stabilize the Industry* (Raleigh, North Carolina: Cornell University and the National Smart Start Technical Assistance Center, 2004).