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Executive Summary
Organizations and businesses improve performance by making productivity-enhancing investments. So, for example, an early learning and child care center might make improvements to its facility to be more attractive to parents and thus maintain high enrollments. Or it might invest in professional development to improve its staff’s performance. There are other ways to improve performance.

One promising performance-enhancing idea spreading in the field of early care and education is shared services. It is a profoundly counterintuitive concept. Rather than investing directly in the organizations that provide early care and education, shared services strategies rely primarily on external investments to achieve savings for a group of organizations, principally through outsourcing or economies of scale realized by centralizing administrative functions among multiple organizations.

This monograph summarizes some key findings from the first phase evaluation of the Philadelphia Shared Services Initiative (PSSI or the Initiative), a project with the long-term goal of improving the quality of early childhood education. The Initiative is noteworthy because it represents a departure from previous shared services practices by focusing on highly scalable knowledge-rich services that can be delivered via the Internet. Although conceived to be like other shared services – a vehicle for cost-saving – the Initiative’s version of shared services has proved to be about sharing intangible knowledge assets rather than more tangible financial assets. The three web-based program components – ECESharedResources, ChildWare, and ECEhire – function as sources of and conduits for knowledge. They present a menu of knowledge-rich tools to improve the performance of early childhood programs.

ECESharedResources is particularly significant because it has become a “knowledge commons.” The notion of the commons dates from medieval England when it was used to describe shared pasture on which manorial tenants grazed their livestock. Today it appears in connection with all types of shared resources. Lawyers refer to the “creative commons” to describe the relatively unrestricted right to use intellectual property. It crops up in environmental and resource management discussions of air pollution and fisheries. The term most frequently arises in discussions of “the tragedy of the commons”: the tendency of individuals, pursuing their own self-interest, to overuse and deplete a shared resource.

A knowledge commons is a reservoir of useful information, documents, and tools from which programs can freely draw. ECESharedResources saves teachers and administrators time. It also enables them to benefit from the accumulated experience and wisdom of others in the field and to apply this experience to produce better programmatic outcomes. Owing to the unique non-depleting property of knowledge assets, a knowledge commons is immune from the tragedy of the commons. Users can take whatever they need without diminishing the supply for other teachers and administrators.

Common knowledge is anything that is widely known. Or, put another way, it is knowledge that is shared widely. ECESharedResources, as a vehicle for creating and sharing practical knowledge about efficiently and effectively operating an early care and education business, creates common knowledge that contributes to improved business performance which, in turn, frees up resources to invest in strengthening programmatic quality. This is the Initiative’s core strategy for enhancing child outcomes.
**Introduction**

In March 2010 the William Penn Foundation made a two-year grant to the Delaware Valley Association for the Education of Young Children (DVAEYC) to launch the Philadelphia Shared Services Initiative (PSSI or the Initiative). The Initiative developed and introduced a set of new shared services tools for child care programs in the five counties of the greater Philadelphia area. The award also included funding for DVAEYC’s two nonprofit partners: the Public Health Management Corporation (PHMC) and the Opportunities Exchange (OE). This monograph is based on the evaluation of activities carried out during the term of the William Penn grant.

“Shared services” refers generically to the practice of creating efficiencies by eliminating duplication, standardizing processes, and generating economies of scale through outsourcing and across organizational partnerships. Scale economies can also produce economies of specialization that, in turn, yield better results because essential functions are performed in a more sophisticated way. The evaluation found that the combined effects of enhanced efficiency and effectiveness produced greater productivity or improved performance.

Shared services can take many forms, including outsourcing, informal collaborations, strategic alliances, and joint venture partnerships. Louise Stoney and Anne Mitchell introduced the shared services concept to the early care and education (ECE) field as one strategy to address the austere structural and financial conditions prevalent in this industry.¹ They identified, documented, and promoted a series of models such as:

- Management services agreements, like the ones local child care centers have entered into with the Children’s Home in Chattanooga, Tennessee;
- Franchise-like networks, such as Colorado’s Early Learning Ventures, designed to support multi-center alliances, all of which rely on a degree of administrative standardization and subscribe to a set of programmatic standards; and
- Cooperative partnership arrangements, like Sound Child Care Solutions in Seattle, Washington.

These examples include partnerships formed to streamline or rescale program administration, enabling affiliated child care programs to deliver higher quality early education services. The PSSI takes a different approach: it has introduced an innovative shared services model that seeks to harness the same principles using very different means.

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¹ This monograph uses the terms “early childhood education,” “early care and education,” “child care,” and similar terms interchangeably. To many, “child care” has become an outdated term-of-art implying custodial care – programs where the overriding goal is to provide a safe and nurturing environment for children of working parents – whereas these other terms include child care but also connote a greater emphasis on education and healthy child development. Nonetheless, “child care” is widely used as a generic descriptor for all types of out-of-home programs for children birth to five.
The Initiative
The Initiative is a collaborative effort involving three nonprofit organizations:

- The Delaware Valley Association for the Education of Young Children (DVAEYC) is the regional chapter of the National Association for the Education of Young Children. DVAEYC has approximately 2,000 members in the five southeastern counties of Pennsylvania, which includes the Philadelphia metropolitan area. DVAEYC supports early childhood programs and practitioners with professional development and technical assistance to improve the quality of programs and engages in advocacy aimed at increasing public sector resources and improving the system of early care and education.

- The Public Health Management Corporation (PHMC) is a large and diversified nonprofit public health institute with nearly 1,500 employees, 250 programs, and 11 subsidiaries. It builds healthier communities in greater Philadelphia through a variety of partnerships. Among its portfolio of programs is Targeted Solutions, a management consulting and administrative services practice. In 2011 PHMC won the state contract to serve as the Southeast Regional Key (SERK) responsible for developing and implementing an integrated and coordinated system of program quality improvements and professional development supports for providers of early childhood education in three southeastern counties, including Philadelphia. The SERK evaluates providers to assess their quality based on the state’s quality rating and improvement system, Keystone STARS.

- The Opportunities Exchange (OE) assists nonprofit organizations serving low-income individuals to improve the quality of their programming and financial sustainability through the development and use of shared services. Its primary focus is the field of early childhood education.

The rationale for the project’s shared-services approach is compelling. There is a substantial and growing body of research documenting the profound lifelong benefits of very high quality early childhood education, especially for low-income and other groups of at-risk children. Conventional approaches to quality improvement intervene directly to affect pedagogy, supplying educational materials, professional development, and technical assistance to improve classroom practices, and more indirectly through policies that impose higher standards.

Shared-services strategies also seek to improve child outcomes with the goal of improving school readiness and closing the academic achievement gap. But instead of intervening directly, as pedagogical and policy approaches do, these strategies follow a more circuitous route.

One reason the quality of early childhood programs is not better is its cost. According to Helburn and Howes, two of the researchers who participated in the Cost, Quality and Child Outcomes in Child Care Centers study (1995), the cost of moving from poor to mediocre is less than the cost of moving from mediocre to good. It costs still more to move from good to excellent. While measuring the relationship between cost and quality is complicated, there is some evidence from that study, buttressed by common sense, that such a relationship exists. Therefore, generating operating efficiencies would enable providers motivated to improve their programmatic quality to reallocate resources to do so.
Another reason quality is mediocre has to do with managerial effectiveness. “Some of the qualities or characteristics that enable centers to provide good-quality care relatively inexpensively,” including managerial competency, were not included in Helburn and Howes’s econometric model. Citing another finding from the same study, these researchers noted “a child care director’s administrative experience and effectiveness positively affected quality...” (p. 79). Conversely, a lack of administrative experience and effectiveness negatively affects quality. One possible explanation for why directors may be less experienced or effective in this sector can be found in the industry’s cost structure, market characteristics, and competitive pressures.2 Thinly staffed administration, low salaries and directors expected to provide both educational and business leadership, which rely on two very different sets of competencies, conspire to undermine managerial effectiveness.

This provides the rationale for PSSI. It seeks to buttress quality by attacking the underlying business economics and management practices that prevent the field from operating more efficiently and effectively.

PSSI’s approach relied on a series of Internet-based tools and services. While its menu was neither as comprehensive nor as in-depth as those of Sound Solutions, the Children’s Home, or Early Learning Ventures, it had some distinct advantages. First, because of the technology it employed, the Initiative was capable of serving very large numbers of ECE providers. Second, joining a strategic partnership requires significant organizational change. PSSI’s shared services imposed fewer barriers to adoption and enabled providers to sample discrete services without having to commit to an extensive bundle of services. The Initiative had three program elements:

- **ECESharedResources** – A website portal operated on DVAEC’s behalf by CCA for Social Good, a business affiliate of New Hampshire-based CCA Global Partners. *(ECESharedResources was replaced in the middle of the grant term with a rebranded statewide version of the site, *SharedSourcePA*). The web portal was the Initiative’s most prominent and most widely used component. CCA Global serves local retail businesses in the floor covering, mortgage banking, lighting products, and bicycling sectors by consolidating sector-specific business services like purchasing and marketing. This shared services business model enables small retailers to remain viable and retain their local identities while competing against retail chains. CCA for Social Good is a relatively new business extending the same model to nonprofit organizations. According to its website:

>CCA For Social Good™ continues CCA Global’s solid history and track record of helping independent organizations work together and maintain their independence. The initiative draws on CCA’s existing infrastructure, helps organizations achieve greater

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2 A small number of firms have achieved a competitive advantage that yields higher margins by carving out niche markets and through growth, which has enabled them to capture economies of scale. Much of the industry, however, consists of very small, mostly single-site enterprises competing in a marketplace with many substitutes (family child care, kith and kin care, or a parent opting to stay at home rather than work and bear the cost of third-party care). For these providers minimizing costs is essential to survival. In short, the structure of the industry constrains many from achieving higher levels of quality.
efficiency and effectiveness, and seeks to address the biggest issue facing small nonprofits — scale.

Its first service was a web-accessible platform — NonprofitSharedResources.com — designed to enable nonprofit organizations to access its “toolkit” of business services.

Through a business agreement with DVAEYC, CCA created another site – ECESharedResources.com – designed to meet the needs of child care programs. In exchange for DVAEYC’s assistance in developing the content for the site, which CCA markets as a subscription service nationally, CCA gave DVAEYC’s members free access to the site for one year.

- **ChildWare** – Child care center management software has been on the market for years and many high-quality programs are available. Most have migrated to the web. These database programs enable ECE administrators to track, store, and manage information about children and staff, prepare invoices, and manage fee collection, among other tasks. PHMC wrote its own child care management software, ChildWare, for this project. It differs from other commercial products in two ways. First, it is customized to manage data elements specific to Pennsylvania’s ECE system. Second, it makes it easier for the less computer savvy administrators to make the transition from paper recordkeeping, most notably by offering the service for free during the first year.

- **ECEhire** – ECEhire.com is a Pennsylvania-specific employment portal for early care and education providers and professionals. In addition to providing a centralized site where providers can post jobs and practitioners can view and apply for job openings, ECEhire offers candidate screening services for a fee and promotes open positions through a weekly job digest and social media outlets such as Facebook and Twitter. ECEhire.com is open to all licensed childcare providers in good standing with the Pennsylvania Department of Public Welfare as well as licensed nursery schools, Head Start programs, early intervention providers, and other related organizations.

**Shared Services**

The concept of shared services was introduced to the early care and education field by the Alliance for Early Childhood Finance (AECF). A collaboration of two consultants and creative thinkers, Louise Stoney and Anne Mitchell, AECF has promoted shared services as a fresh response to the structural barriers preventing much of the early care and education industry from raising quality. These barriers include the fragmented character of early care and education. It is an industry with a plethora of small providers. It delivers an exceedingly labor-intensive service where regulated staff-to-children ratios drive costs, causing exceedingly tight operating margins.

While relatively new in the field of early care and education, the shared-services concept is used elsewhere. As one guide to nonprofit management explains:

> Most nonprofit organizations have a traditional organizational model with their own core operations such as purchasing, public relations, human resources, IT support, equipment, etc.
and workspace. The current economic crisis is leading nonprofit organizations to look for new, cost-effective structures.

Shared services offer a long-term solution by allocating much-needed resources across traditional organizational boundaries. Shared services increase purchasing power and reduce costs, increase operating efficiency and reduce risk, improve access to high-quality services, and foster the collaborations that lead to program innovation. Experiences in the private, public, and nonprofit sectors prove these gains are possible when shared services are designed effectively. (Cefola, Brotsky, & Hanson, 2010, p. 9).

Indeed, Stoney and Mitchell identified and documented examples of pre-existing shared-service alliances in the early care and education industry. These included a variety of strategic partnership arrangements that permit groups of providers to lower their costs and operate more efficiently by jointly carrying out certain functions. Based on their research they recommended a range of strategies that emphasize economies of scale and specific management practices to enhance financial performance.

Business economists and management consultants differentiate two categories of activities found in all enterprises.3

- **Primary activities** in early learning environments refer to those that directly add value for the customer, such as the curriculum, hours of operation, classroom activities, and supervising and feeding children. In early childhood education, an intimately scaled program is one of the qualities center-based programs see as almost essential to their primary value.
- **Support activities** sustain these primary activities by supplying organizational infrastructure and critical inputs. These include human resources, facility and financial management, purchasing, administration, and other essential but routine functions needed to maintain the enterprise’s primary value-creating activity.

Collectively these primary and support activities make up the business’s **value chain** because they function interdependently to create economic value in the form of a product or service. As noted previously, most quality-improvement interventions in early childhood education try to influence how primary activities are carried out. By contrast, shared-services strategies concentrate on streamlining support activities. If a preschool program can carry out support activities more efficiently and effectively, the theory posits, it will yield additional resources to support the center’s primary value-creating activities. Intervening organizationally as a strategy for producing better child outcomes constitutes shared services’ principal innovation.

Prior to the launch of the PSSI the only shared-services model in the early education arena took the form of business alliances – contractual relationships between two or more providers to share the cost of certain support activities. Such alliances exist in other industries, such as the Star Alliance in the airline

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3 The evaluation adopted the terminology and concepts introduced by Michael Porter: **value chains**, **primary** and **support activities**, and **industry structure**. These terms are widely used and accepted in the business management literature.
industry. Through these cooperative agreements competitors share certain value-chain activities because doing so enables all to better serve their customers. Alliances provide two key advantages:

- **Economies of Scale** – By carrying out certain functions jointly, members can achieve scale economies that result in lowered costs for purchased goods and business services such as accounting.
- **Economies of Specialization** – These arise when size enables an alliance to reallocate work to more specialized, experienced, and better qualified employees or groups who are able to bring greater rigor and quality to the tasks they perform.

AECF describes the ECE shared-services model on its website as “…centers and family child care homes working together to share costs and deliver services in a more streamlined and efficient way. By participating in a shared service alliance, early care and education businesses become stronger, more accountable, more financially sound and efficient, and better equipped to offer affordable, high-quality services for children and their families.”

The value-chain framework is an analytic tool used to construct a more favorable cost structure, a concept integral to Michael Porter’s view of a sustainable business strategy (1998). Early care and education alliances improve the disadvantageous cost structure found in the field by allowing participating centers to reconfigure their value chain. Thus the shared-services model might be defined as a strategy for delivering essential business support services to a higher standard and at a lower cost. Fundamentally, the shared-services concept as embodied in PSSI and promoted by AECF is about an idea: that child care providers can be more productive by restructuring their administrative or support functions to take advantage of economies of scale and specialization.

*SharedSourcePA*⁴ and *ChildWare* differ from the typical business alliance model of shared services. The project team colloquially referred to the business alliance shared-service model as “deep” and the PSSI’s web-based services as “shallow,” while recognizing that they shared the same genetic material: both represent strategies for delivering essential business support services to a higher standard and at a lower cost. The evaluation adopted a different nomenclature, substituting intensive shared services for the alliance model and scalable shared services for PSSI’s. The most salient difference between the two is the central role knowledge assets play in the scalable shared services model and its reliance on web-based delivery vehicles. “Scalable” alludes to a unique quality intrinsic to knowledge assets.

The underlying barriers to higher quality are in the economics that shape the industry’s unique structure:

- The defining structural characteristic of much of the industry is the small and inefficient scale of early childhood education programs.
- The cost structure is driven by the service’s labor intensity.

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⁴ Initially, the national site *ECESharedResources.net* served as the project’s web portal. Midway through the grant, with other partners, the website expanded to serve the entire state of Pennsylvania, resulting in a rebranded version of the site with the new name *SharedSourcePA*. 
• Complicating the picture is weak effective market demand by most middle-income families. That is, the market clearing price of early care and education makes it exceedingly difficult to cover the cost of high quality and accounts for the exceedingly low wages characteristic of the field.
• The segment of the industry that serves low-income families with child care subsidies suffers under the additional economic insult of monopsonistic pricing dictated by the dominant customer, state government. (A monopsony is a monopoly turned on its head: Instead of a market situation in which one seller dominates a market, in a monopsony one preeminent buyer is in a position to dictate prices.)
• Finally, center-based programs face competitive pressure because of the presence of lower-cost substitutes, such as kith and kin care, that exert downward pressure on prices.

The extremely disadvantageous relationship between cost and price structures explains the absence of large corporate players in the early childhood education market. Other than a few large chains that have carved out profitable niche markets, early childhood education is a highly fragmented industry comprising small and economically marginal community-based nonprofit organizations, small proprietary businesses, and religiously affiliated programs.

Shared services can alter this dismal business calculus for small programs in two ways:

1. They provide both cost and time savings that yield gains in efficiency. As a result, primary and support activities can be accomplished with fewer resources. Savings like these enhance the center’s sustainability and make it possible to reallocate resources to improve program outcomes. For example, to attract and retain more experienced staff, savings can be applied to improved compensation. Or the director can shift time previously consumed by administrative tasks to activities that enhance educational outcomes, such as staff supervision or building partnerships with other organizations.
2. Shared services also make possible economies of specialization. These are related to scale economies because another consequence of scale is that roles can be defined more narrowly and filled by employees with specialized skills and knowledge. When tasks are performed to a higher quality standard the result is greater effectiveness. A center director with expertise in early care and education will be less able to recognize aberrations in the program’s financial performance than a financial manager with an accounting or business degree. Greater scale achieved by sharing costs as well as outsourcing make it possible to shift administrative duties from generalists to specialists who can carry out functions more effectively (and often more efficiently as well).

In theory then, shared services operate to improve program performance by saving time and money, and by having support and primary educational activities performed to a higher standard.

The Knowledge Economy: A Different Value Proposition
Over the past half century, the information age has eclipsed the industrial age as the foundation of the nation’s economy. Far fewer U.S. businesses supply tangible products like cars or televisions. To survive
in today’s economy even manufacturers of physical assets rely on intangible information-age assets (computer hardware and software, for example) to enhance productivity and remain competitive in a global economy. Today we live in a service economy where value creation depends on the intangible knowledge assets employees possess, create, or access.

The service sector contains high value-added businesses that serve non-local markets, like New York City’s finance industry, and low value-added local ones including restaurants, hair salons, landscapers, and other retail and personal services businesses. Early care and education centers fall into the latter category. Local services are especially labor intensive with limited opportunities to substitute labor-saving technologies. Think of barber shops, the local deli, or health clubs. To the extent that local services, such as fast-food restaurants, develop or adopt labor-saving measures they create jobs that are de-skilled, requiring less knowledge or experience.

Early childhood education is a classic local service enterprise facing atypical pressures. The escalating emphasis on better developmental outcomes for children rather than custodial care is changing the value proposition and requires a better educated, more highly skilled and professional workforce. In this respect, the industry is not just labor intensive; it is increasingly part of the knowledge economy. The work environment can be improved and made to function more efficiently for early childhood educators, but there is no robotic substitute for what these classroom teachers do. Early education today requires more human capital: more highly educated and highly skilled teachers. They are expected to be more effective, not necessarily more efficient.

On the other hand, when it comes to a center’s administrative support functions, such as financial management and recordkeeping, productivity enhancing knowledge assets can contribute to greater efficiency. This is where the intangible knowledge-rich resources available with the Initiative’s scalable shared services have the potential to improve efficiency and effectiveness for the early care and education field.

A survey of registered ECESharedResources users conducted in April 2011 as part of this evaluation produced evidence that this Initiative’s value proposition is more firmly rooted in the creation and organization of knowledge assets and access to them than it is in the original cost-savings value proposition.

In promoting ECESharedResources the project team assumed that cost savings in the form of vendor discounts would be the site’s most attractive feature. Although anecdotal evidence demonstrates that some providers took advantage of and appreciated the cost savings, the survey responses revealed that the site’s knowledge resources were at least as valuable as, or more valuable than, the savings available on purchased goods and services.

Knowledge is a unique economic asset. Management consultant David J. Skyrme notes that, compared with physical and financial assets, knowledge assets have some distinctive characteristics. Most notably, knowledge is “non-depleting” and easily “transferable.” (KM Knowledge Management, nd). Knowledge “conflicts with one of the most basic assumptions of economics...the concept of scarcity which says, ‘If you have 100 shirts and sell one, your inventory decreases.”
Think about *ChildWare*. Software can be “sold an infinite number of times without running out of software” (Adams & Oleksak, 2010, p. 5). Similarly, the cost of operating a web portal changes very little regardless of the number of users or the frequency and duration of their use. *SharedSourcePA* users can download an administrative document template endlessly without decreasing the document’s utility to the next user. It is this non-depleting characteristic of knowledge assets that makes them “scalable,” hence the use of this adjective to differentiate *ECESharedResources* and the other web-based components of the PSSI from the intensive alliance model of shared services.

Practitioners in the knowledge management field recognize four categories of knowledge assets, all of which are relevant to the Initiative’s shared services model:

**Human Capital**

The most obvious knowledge asset is human capital: the knowhow, experience, and competencies employees bring to their work. With the experience and tacit knowledge they acquire on the job employees continue to add to their store of human capital. *ECESharedResources* provides a variety of ways to augment early childhood educators’ and administrators’ human capital.

For example, the website’s human resources (HR) tab is heavily used. Interviews with users suggest that administrators consult this section frequently when preparing job descriptions, hiring, conducting performance reviews, giving feedback, and dealing with performance problems. In the knowledge management field this type of codified information is referred to as explicit knowledge. One goal of knowledge management is to capture and translate difficult-to-communicate tacit knowledge acquired through experience into explicit knowledge that can be shared. This tab organizes explicit knowledge relevant to human resource management. In interviews administrators said that the site’s HR resources have made them better or more confident supervisors. Improved supervisory practices also help center directors make better use of and build the human capital of the program’s staff. Given that personnel represent 70 to 80 percent of a center’s operating budget and the importance attached to the quality of teacher-child interactions, investing in building and effectively using a center’s human capital is a credible quality improvement strategy.

While not yet sufficiently developed to realize its full potential, the training tab exists for the sole purpose of adding to the ECE workforce’s human capital.

**Structural Capital**

Unlike human capital, which “walks out the door at the end of the day,” structural capital is “knowledge that has been captured and becomes part of the organization.” Sometimes referred to as organizational knowledge or organizational capital, structural capital takes the form of systems and procedures organizations use “to capture knowledge and makes it re-useable.” These knowledge assets include databases, documents, information systems, software programs, processes, and procedures. “Any time that you capture the ‘best practices’ of your organization in an automated process, you are making every employee smarter when they come to work in the morning.” Structural capital plays a very important role in administrative support activities, such as accounting, human resources management, and data management. “Each of these functions has its
own body of knowledge, competencies and processes” and can be systematized to become increasingly valuable forms of structural capital (Adams & Oleksak, 2010, pp. 27-34). One of the arguments DVAEYC and its partners made in their funding proposal was that the intermingling of multiple funding streams, each with its own reporting requirements, and new standards have added to the administrative complexity of delivering early care and education services. Structural capital investments designed to automate such recordkeeping and reporting can produce significant time savings.

- **ChildWare**, like other center management software programs, is a form of structural capital. Having administrative information in digitized form means data entry is a one-time task. It automates the production of innumerable reports that would otherwise require hand-sorting and additional data entry. It saves time in match processing procedures like invoicing. Once procedures have been translated to computer code, it has become a structural capital asset.
- The **ECESharedResources** downloadable forms, like the one to notify parents of their child’s exposure to a communicable disease or the parent information handout on biting, are also forms of structural knowledge. So too are the other templates found on the site. For example, DVAEYC’s technical assistance providers have reported that they spend less time assisting centers develop a parent handbook now that they have access to one on the website. The parent handbook is required for a center to earn a Star 3 in Pennsylvania’s quality rating and improvement system. According to an analysis prepared by CCA Global, DVAEYC’s technical assistance staff spends 11.75 hours on average assisting a center in developing its parent handbook. Previously it took 42 hours. The savings represent the value of the technical assistance provider’s expertise when captured as explicit knowledge. Add to this the provider’s time savings. Since a director can now edit rather than having to draft and craft policies from scratch, it also takes her less time to create her center’s own parent handbook, adding to the cumulative time savings for the industry. Moreover, the template is the product of DVAEYC’s experienced early childhood experts sifting through and selecting the best from many handbooks. Those source handbooks, in turn, contain revisions the original authors made over time to address previously unanticipated exigencies. The templates therefore embody the wisdom of scores of child care directors, each with years of accumulated experience.
- Although less developed at this point, **ECEhire** aspires to serve as structural capital for the ECE industry in greater Philadelphia. The new service centralizes and automates recruitment, candidate screening, and initial due diligence. In part, **ECEhire** is a marketplace for trading what is arguably the most critical input for ECE organizations. Having an active marketplace can reduce the time it takes to find candidates as well as improving the quality of hires. The pressure to be in compliance with staffing regulations contributes to the “warm body syndrome” caused by hasty hiring decisions (Whitebook & Bellm, 1999).

**Relationship Capital**

Unpack the various activities that occur in an early care and education program and you have the value chain described earlier in this monograph. The value chain contains the connected series of steps that produce economic value in the form of child care for working parents and enhanced
developmental outcomes for children. That value chain is part of a larger value system that includes “upstream” suppliers – publishers and manufacturers of educational materials and equipment; institutions of higher education that prepare the early childhood workforce; accounting, bookkeeping, and payroll services; and so on. Whether or not centers build any of these inputs into their internal value chain or purchase them from the larger value system, they remain essential inputs. The decisions about which inputs to internalize and which to outsource or access from the larger value system are pivotal business strategy decisions that influence a program’s cost structure and the essential qualitative characteristics of the services it delivers to children and families. As Michael Porter writes, a successful strategy “depends on understanding not only a firm’s value chain but how the firm fits in the overall value system” (1998, p. 34). The resulting interdependencies with external partners – organizations, firms, and individuals – produce relationship capital. Relationship capital is knowledge shared and developed with those with whom your organization interacts, including upstream suppliers and “downstream” customers. Indeed, relationship capital extends in all directions. “These relationships may be with customers, vendors, partners, advisors, licensing authorities and market influencers” (Intangible Capital Knowledge Center/Relationship Capital, n.d.).

Perhaps the most important example of relationship capital in early education is a center’s relationships with parents. The value of parent engagement to child outcomes is widely recognized. Programs that establish good communication with parents and build trust can more easily exchange information, which enables them to work in concert to achieve positive outcomes. That is the pedagogical rationale for parent engagement. Those outcomes are the returns earned on the relationship capital between parents and the program’s staff. As noted earlier, the ECESharedResources website contains structural capital in the form of downloadable handouts that centers can use to support communication with parents, and hence build this particularly valuable form of relationship capital.

Some upstream and downstream interactions involve little relationship capital. For example, some vendor and outsourcing arrangements can be transactional, like going into a supermarket to purchase milk. On the other hand, vendor-customer transactions can be rich in relational capital. As part of the project, the Opportunities Exchange invested a great deal of time identifying a vendor from whom child care providers could more economically purchase food through ECESharedResources. After personnel and physical facilities, food is the largest expenditure category. They successfully recruited FoodSource Plus, a firm that works exclusively with the nonprofit human service sector and claims 10 to 35 percent savings to its customers. To demonstrate the value of purchasing from FoodSource Plus, the company supplied centers with a cost analysis comparing their prices to the centers’ current vendors’. These analyses showed significant savings. Yet few centers switched. At first blush center directors appeared to be insufficiently cost-conscious, allowing loyalties to their existing vendors cloud their business judgment and reinforcing the impression that early childhood educators are not savvy businesspeople.

But interviews with providers, although anecdotal, suggested, at least in some cases, a more complex and less intuitive decision calculus. For example, one center director explained that the
new vendor would make less frequent deliveries. Since the center had limited storage space, especially refrigerated space, more frequent deliveries trumped lower prices. She also noted that her longstanding relationship had created a great deal of goodwill: during periods when the center was low on cash, the vendor routinely extended credit. In other words, this center’s food supplier offered a bundle of services whose value exceeded the savings available through FoodSource Plus. The relationship contained an interdependency that benefited both the vendor and the center. The experience selling FoodSource Plus to center administrators provided the first evidence that a key assumption underpinning the model was wrong: the assumption that PSSI’s value proposition rested primarily on cost savings. Moreover, the Initiative had an insufficiently appreciated value proposition based on knowledge assets.

On the other hand, the intensive model of shared services, whose value proposition emphasizes costs-savings, relies on the relationship capital buried in an alliance’s supply chain. The performance gains depend on the alliance membership’s ability to recognize the economic value of interdependence and their willingness to tradeoff a measure of autonomy to gain the performance advantages associated with economies of scale and specialization. This is one of the most important differences between scalable and intensive shared services.

**Strategic Capital**

Some sources recognize strategic capital as a fourth category of knowledge asset. Strategic capital includes “knowledge about a company’s external environment and” a self-awareness of “the business model it has developed to maximize its success in this environment” -- in other words, “the recipe by which human, structural and relationship capital are combined to solve a problem for a customer or a stakeholder” (Intangible Capital Knowledge Center/Strategic Capital, n.d.). This is almost a textbook definition of business strategy: a series of internally consistent and reinforcing choices about the way a firm or organization conducts its business so as to achieve sustained superior performance. Business strategy is where the value chain construct becomes useful.

*The value chain is a powerful tool for disaggregating a company into its strategically relevant activities in order to focus on the sources of competitive advantage, that is, the specific activities that result in higher prices or lower costs (or, if your organization is a nonprofit, the activities that result in higher value for those you serve or lower costs in serving them)* (Magretta, 2011, p.75).

This quotation captures the strategic underpinning for intensive shared services: reconfiguring the activities associated with early learning in a way that results in “higher prices or lower costs” and/or in higher value for the children and families being served. The point is that the shared services concept is a tool that early learning enterprises can use to develop and practice better business strategies. Or, as Jeff Jarvis famously wrote in *What Would Google Do?*, “Do what you do best and link to the rest.” This is fundamental to business strategy.

Business strategy can be thought of as the solution to the engineering challenge of crafting a value chain that yields a higher level of performance. To arrive at the optimum solution, an organization must make choices about where it will specialize and excel; which customers to serve and which to
leave to its competitors, and what activities it will internalize and which ones it will externalize or perform in partnership. The intensive ECE shared-services model documented by the Alliance for Early Childhood Finance is fundamentally about designing and implementing a better business strategy. It consists of business practices that free, generate, and focus resources to support ECE directors in what should be their core competency: their capacity to function effectively as their program’s educational leader.

In theory, concentrating the director’s time and effort in this way can improve programmatic quality. While its literature makes no reference to the value-chain concept, the key principles embedded in AECF’s vision of the alliance model of shared services emphasizes measures designed to streamline the value chain. In pursuit of economies of scale and specialization, AECF promotes various ways an ECE center can fine-tune its value chain by linking to organizations in the larger “value system” to perform functions that are typically carried out internally. Decisions to externalize certain functions might be motivated by a desire to take advantage of a partner’s scale or specialized abilities to deliver administrative and program support activities more efficiently and effectively. This intensive shared services blueprint is a form of strategic capital.

Scalable shared serves support human and structural capital formation but less ably support relationship and strategic capital formation. However, that was indiscernible at the outset. The Initiative’s planners hypothesize that interactions between ChildWare’s users would engender trust in PHMC and an experiential appreciation for the benefits of shared services. In short, some of these center directors would begin to outsource more substantive support functions to PHMC. According to the proposal to the William Penn Foundation:

> Beginning with a cohort of ChildWare users, PHMC will expand their shared services offerings to include...a third-party, back-office billing system...as well as fiscal management;...a centralized staff recruiting tool that would enable providers to draw pre-screened candidates; shared fundraising and support for fund development; [and] access to part-time professionals such as Social Workers and Nurses.

The logic behind this evolutionary representation of process through which scalable shared service users might adopt intensive shared services made more sense at the outset than it does now after two years. The move to intensive shared services involves intentionality – a conscious understanding of the strategic business logic behind scale economies – and more relationship capital than scalable services can produce. This seems to be one of the lessons DVAEYC, PHMC and Opportunities Exchange took from their two year pilot. Their proposal for continuation funding to improve their scalable shared service offerings included resources to directly organize intensive shared-service alliances among Philadelphia-area providers.

The point is this: ECESharedResources, ECEhires, and ChildWare are knowledge assets that embody and help early childhood education centers to create two forms of knowledge capital, human and structural. This is the Initiative’s foundational source of value to early childhood programs.
Systemic Capacity Building

While foundations often describe their philanthropic grants as “investments,” in most cases they actually “buy” direct services rather than “build” the grantee’s productive capacity. The latter, by generating future productivity, conforms to the conventional distinction between expenditures and investments. Typically grants and government contracts don’t pay to strengthen the support activities in the organization’s value chain: human resource management, financial management systems, office automation, or improved physical infrastructure (Overholser, n.d.). This is certainly true for most nonprofit human service organizations, such as child care centers. These are “widely (and correctly) regarded as indispensable, yet,” as Clara Miller (2008, p. 45) has noted, their “underlying economics and management systems seem to be almost no one’s primary concern.” This has begun to change.

The 1998 publication of *High Performance Nonprofit Organizations: Managing Upstream for Greater Impact* (Letts, Ryan, & Grossman) helped crystallize a critique about the nonprofit sector’s failure to have a greater impact on a wide range of critical social challenges. The authors exposed the deeply ingrained bias in the nonprofit sector – among both philanthropic and governmental funders as well as the nonprofit organizations they fund – to spend money and effort on programs (buying services) while ignoring the need to invest in the underlying organizations. The authors make the case that well-conceived programs can be expected to fall short of expectations without high performance organizations driving their implementation. The authors’ findings have become conventional wisdom and helped spur a growing appreciation for the importance of organizational “capacity building” – direct efforts to enhance organizational productivity, effectiveness, and sustainability.

Training and technical assistance are the dominant means used to build organizational capacity. These services are most commonly designed to address specific needs of an organization or a small cohort of similar organizations. While the William Penn grant to DVAEYC belongs to this capacity building tradition, it reflects some newer thinking. Instead of investing in the capacity of individual organizations or a small group of organizations, this Initiative seeks to have a wider impact by capitalizing the shared capacity and infrastructure of the region’s early care and education field as a whole. This approach is sometimes called *field building*. It seeks to improve the performance of the sector. It can also be called *systemic capacity building*.

Investments in organizational capacity building strengthen a nonprofit’s performance by producing improvements in efficiency, effectiveness, and sustainability. But an industry’s economic structure constrains an organization’s potential to enhance performance. For example, regulations dictating minimum adult-to-child ratios represent a significant cost driver that affects every organization delivering early care and education services in a jurisdiction. Similarly, the cost of care represents a major item in most household budgets, creating market conditions that limit the amount providers can charge. These are structural characteristics of the industry and to some significant degree affect all those competing in the field and especially those competing in the same market. On the other hand, strategy accounts for the relative difference in the performance of firms in the industry. Bright Horizons, a large chain of employer-based child care centers, has succeeded relative to most other child care providers because of its disciplined strategy to serve more affluent customers. The goal of a business
strategy is to achieve a sustainable profit advantage. The nonprofit equivalent is sustained high performance measured as social outcomes.

As discussed earlier, constructing a performance advantage often depends on an enterprise’s strategic decisions about its value chain, the activities a firm carries out to create value for its customers. A provider’s decision to use shared services is, in effect, a strategic decision to restructure its value chain to achieve a performance advantage. A decision to outsource a function previously done internally is based on a calculation that the added cost of paying another supplier is more than offset by quality improvements or time and cost savings. It is equivalent to a manufacturer’s decision to outsource production to China. Since these firms can assemble products at a lower cost and are perhaps located closer to suppliers, the outsourcer’s net income will increase. Strategic choices to rely more heavily on external resources and relationships presuppose their availability in the larger value system. Systemic capacity building is the process of developing such resources, constructing the institutional infrastructure that surrounds early childhood programs, and nurturing a culture that supports value chain innovation.

The matrix on this page depicts a more elaborate way to think about the systemic capacity building landscape. The three lightly shaded quadrants—contractual, cooperative, and commons—represent different types of systemic capacity, while the cell labeled “autonomous” represents the capacity building paradigm that involves organization-by-organization investments in internal capacity. The difference between “autonomous” and “systemic” is equivalent to Michael Porter’s distinction between the value chain (what an enterprise carries out internally) and the value system (those external resources, functions, and relationships it relies on). All organizations need to invest in their own internal capacity. These investments reinforce the organization’s value chain. The other three quadrants represent forms of systemic capacity building.

- **Contractual** – Outsourcing exemplifies the contractual (independent/external) model. A business or organization contracts with a third party to perform a routine support activity. These primarily entail easy to sever transactional relationships. The contracting organization retains a high degree of independence. ChildWare and ECEhire fall mostly within this category of systemic capacity.
- **Cooperative** – The lower left quadrant (internal/shared) covers collaborative activities in the early childhood field. As a trade association, the National Association for the Education of Young Children (NAEYC) and its local chapters illustrate cooperative capacity. So too are membership-based shared service alliances like Seacoast Early Learning Alliance in New Hampshire and the
Georgia Alliance for Quality Child Care. Shared services in this quadrant are “internal” in that the participating organizations have a role in governance either through membership or an ownership stake. Being more relationally than transactionally interdependent, participants surrender somewhat more autonomy but retain more of a voice. The line between contractual and cooperative capacity can become blurred as the relationship capital and interdependency builds in some contractual affiliations.

- **Commons** – The PSSI launched one broadly shared (external/shared) capacity building investment: The ECESharedResources (now SharedSourcePA) web portal. This start-up is like a public infrastructure, similar to the Interstate Highway System. It is a system anyone can use provided they are members of an NAEYC affiliate in Pennsylvania.

Like ECEhire or ChildWare, ECESharedResources and SharedSourcePA build the early care and education value system. They represent value-added resources that programs can link to in lieu of building and maintaining certain competencies and functions in-house. They provide some of the infrastructure the field of early childhood education needs to increase its productivity and improve its performance.

The new name for the ECESharedResource web portal, SharedSourcePA, and the tagline “working smarter for children and families” do a great job of expressing the Initiative’s brand, including ChildWare and ECEhire. They reflect the project team’s growing recognition that the value proposition shifted from one based on cost savings to one that recognizes and emphasizes the value of knowledge assets.

The idea that systemic capacity can include a commons is a new one. And more specifically, in the case of this shared services initiative, SharedSourcePA has become a virtual knowledge commons. The notion of a commons dates from medieval England when it was used to describe shared pasture on which manorial tenants grazed their livestock. Today it appears in connection with all types of shared resources. Lawyers refer to the “creative commons” to describe the relatively unrestricted right to use intellectual property. It crops up in environmental and resource management discussions of air pollution and fisheries.

A knowledge commons is a reservoir of useful information, documents, and tools from which programs can freely draw. SharedSourcePA saves teachers and administrators time. It also enables them to benefit from the accumulated experience and wisdom of others in the field and to apply this experience to produce better programmatic outcomes. Shared resources typically have an Achilles heel: pursuing their own self-interest, users of a shared resource tend to overuse and deplete it. This conflict is known as “the tragedy of the commons.” Owing to the unique non-depleting property of knowledge assets, however, a knowledge commons is immune from the tragedy of the commons. Users can take whatever they need without diminishing the supply for others.

As Pennsylvania’s early childhood education knowledge commons, SharedSourcePA culls through the accumulated wisdom and experience of practitioners, curates the information, and, through the Internet’s digital alchemy, transforms it into common knowledge. Common knowledge is anything that is widely known. Or, put another way, it is knowledge that is shared widely. SharedSourcePA, as a vehicle for creating and sharing practical knowledge about how to efficiently and effectively operate an
early care and education business, creates common knowledge that contributes to improved business performance, which, in turn, frees up resources to invest in strengthening programmatic quality. This is the Initiative’s core strategy for enhancing child outcomes.
References


