DELIVERING QUALITY:
Strengthening the Business Side of Early Care and Education

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A significant but often overlooked fact about early care and education (ECE) programs in the U.S. is that unlike other educational institutions, most of these programs operate as small businesses (either for-profit or nonprofit) and rely primarily on tuition revenue. Without careful attention to the business side of the equation, a program risks not only an erosion in the quality of its services but, all too often, outright failure. Indeed, poor fiscal management is the primary reason ECE programs fail. Even ECE program directors who are deeply skilled in child development may fail to see the warning signs of a business in trouble until it is too late.

Relatively little has been written about what kind of strategies and techniques do the most to help ECE programs operate as financially viable businesses. To help answer that question—and to stimulate further discussion about techniques and strategies that work—this issue brief draws lessons from the experiences of organizations that are using two broad approaches to promoting ECE financial stability:

- Training and technical assistance to improve the business skills of ECE providers, often linked to a grant or loan program, and
- Shared Services—structures that enable organizations to share costs by managing some or all aspects of their businesses collectively.

**KEY LESSONS LEARNED**

- Business management is rarely a top priority for the ECE field, despite the fact that sound fiscal management is key to sustainability.
- It is difficult to find professionals with the right mix of experience, knowledge and skills to guide ECE providers to become better business managers.
- Generic, broad-brush training in ECE business administration is not the best way to help ECE programs operate as financially viable businesses.

- In contrast, effective business training is:
  - Specific, hands-on and focused on providers’ needs;
  - Delivered in small, concrete steps and in tandem with ongoing technical assistance;
  - Linked to efforts to help ECE managers use, populate, and apply information/technology and other tools and templates.

- Effective business training requires motivated trainees; yet many ECE program managers are not motivated because they do not believe that improved business management will make a difference to their bottom line.

- Shared Services, a promising and relatively new approach to capacity building for ECE providers and programs, can be a significant source of help to programs, especially those that are simply too small to ever break even or that do not have the scale required to employ professional staff to manage the business side of ECE. Among other benefits, Shared Service initiatives can help ECE businesses redeploy resources spent on business management to invest in efforts to promote children’s learning and development and to strengthen the quality of teaching.

- Making the kinds of changes in a business model that are typically needed to become part of a Shared Services initiative is a demanding process, requiring significant levels of commitment from ECE managers, board members, and owners. ECE providers who are most likely to benefit from Shared Services are open to learning about how to transition to new business structures and ready to invest the time and energy needed to do so. Agencies that help facilitate or administer Shared Services, along with the providers they serve, must be good collaborators and communicators.

**IMPORTANT NEXT STEPS**

- A concerted effort should be made to conduct research that generates solid industry-wide data on norms, costs, and customers for ECE services. Besides providing a snapshot of the financial health of the ECE industry as a whole, these data could help guide and focus efforts to strengthen ECE training and technical assistance.

- The ECE field should create a dashboard of key indicators that uses management data to regularly monitor the financial health of ECE programs. A few simple-to-track indicators could be an important source of help to ECE managers who want to ascertain whether their programs are fiscally healthy.

- The actions of funders and policy makers concerned
with ECE programs should reflect a fuller recognition that sound business management is essential to the sustainability of ECE programs. Specifically these funders and policymakers should:

- Use key indicators of programs’ fiscal viability to guide decision-making about how to support ongoing initiatives and how to frame and invest in new ones.
- Recognize that ECE programs that are in current or potential fiscal jeopardy may need targeted business-management assistance along with, or prior to, investments in measures to improve the quality of services.
- Invest in systemic capacity building—capacity building that occurs not inside individual programs but on a systemwide basis, as in Shared Service initiatives—to help ECE programs that are very small and/or that lack the internal capacity to benefit from management training and technical assistance.

- The field should undertake a concerted effort to expand the pool of technical assistance providers and intermediary organizations that can effectively focus on the business side of ECE and to provide networking opportunities and other kinds of supports to skilled fiscal and management staff of ECE programs, who often work in isolation from their counterparts in other programs.
For many years, proponents of high-quality early care and education (ECE) services in the U.S. have been able to point to a solid body of research evidence showing that these services can make a big difference for children and their families, with the differences particularly pronounced when families are poor or do not speak English as their first language. Moreover, over the past quarter century, the field has benefited from the work of experts who have carefully defined and measured the elements of quality in classrooms and other learning environments. As a result, many states now use Quality Rating and Improvement Systems (QRISs)—systems that rate the quality of ECE programs and help programs improve their ratings—that are grounded in research-based knowledge of what quality looks like. Research knowledge about the benefits of high-quality ECE has also fueled public and private investments in efforts to maintain and improve the level of services that programs offer to children and families.

While the field has made great progress in its efforts to define, measure, and support quality in classrooms and other learning environments, considerably less attention has been devoted to a key prerequisite of quality—ensuring that programs can operate as successful businesses. In fact, given the structure of ECE services in the U.S., it may be more accurate and useful to view financial stability not just as a precondition to quality but as an ingredient of a quality program that is as essential as well-prepared teachers or sufficiently low teacher-child ratios. So far, however, relatively little has been written about what kind of strategies and techniques do the most to help ECE programs operate as financially viable businesses. To help answer that question—and to stimulate further discussion about techniques and strategies that work—this issue brief draws lessons from the experiences of organizations that are using two broad approaches to promoting ECE financial stability:

- Training and technical assistance (TA) to improve the business skills of ECE providers, often linked to a grant or loan program, and
- Shared Services—structures that either enable organizations to share costs by managing some or all aspects of their businesses collectively, or that help them reduce their costs by using common tools such as web-based applications.

Why Is the Business Side of ECE So Important?

A significant but often overlooked fact about ECE programs in the U.S. is that unlike other educational institutions, most of these programs operate as small businesses (either for-profit or nonprofit) and rely primarily on tuition revenue. Without careful attention to the business side of the equation, a program risks not only an erosion in the quality of its services but, all too often, outright failure. Indeed, poor fiscal management is the primary reason ECE programs fail. Even ECE program directors who are deeply skilled in child development may fail to see the warning signs of a business in trouble until it is too late. Moreover, in a recession economy, ECE businesses, like all businesses, are more vulnerable to failure. Some ECE businesses that provide high-quality care to children have been forced to close their doors simply because they were not on top of business management.

More on This Issue Brief

The ECE field has produced some written descriptions of training/TA and Shared Service projects focused on the business side of ECE. But little has been written on what techniques and strategies used in these kinds of projects work best. For this reason, the primary source of information for this issue brief is interviews with key informants. (See page 15 for a full list of interviewees.) The interviewees provided detailed descriptions of their work to strengthen the business side of ECE.
To set the stage for the discussion of training/TA and Shared Services, the issue brief first considers industry-wide challenges involved in providing effective business-management support services to ECE programs. The brief next highlights two broad strategies that were the focal points of the interviews—first, training and TA and then Shared Services. The brief concludes with a discussion of some potential next steps to improve the business management skills of ECE providers.

INDUSTRY-WIDE CHALLENGES

In addition to offering thoughts on effective business management support services, a number of interviewees stepped back and discussed what it will take for the field to make significant progress in the entire enterprise of strengthening the business side of ECE. These discussions highlighted two major obstacles that interviewees think must be overcome if work on the business side of ECE is to advance to the next level. The two challenges are:

Business management is rarely a top priority for the ECE field.

Most interviewees noted that people who are active in the ECE field—a category that includes service providers, ECE leaders and advocates as well as the policy makers and funders who influence practice—often fail to see the key role that good business management plays in the success of an early childhood program. ECE service providers typically frame the problem as a lack of resources, and argue that financial sustainability can be assured by increased funding in the form of higher reimbursement rates, additional grants, contracts or financial incentives. A deeper analysis of ECE finance underscores, however, that revenues are profoundly influenced by skilled fiscal management and by two other factors: full enrollment and full and prompt fee collection.

No matter how high the tuition or public reimbursement rate, those returns will not translate into income unless the program is full and collecting all of the fees owed by parents and/or third-party funders. While achieving this status might at first appear to be a simple matter, it is actually quite complex—especially in a recession economy. To remain financially viable, an ECE program needs to carefully target its customers, promptly fill available slots with children of the right ages and pay close attention to accounts receivable. Additionally, programs that serve low- and moderate-income families typically have to tap into multiple third-party funding streams. This not only means writing grants but also submitting multiple forms and budgets; complying with multiple policies, procedures and accountability measures; and meeting data-submission requirements. And when dollars are tight, program managers need to quickly make adjustments—closing or restructuring classrooms or implementing other cost-containment strategies. In short, effective business management requires special skills, effective accounting and data systems and the time to focus attention on myriad details.

One sign of the weak focus on business management in the ECE field is that the industry lacks business-related research and development (R&D)—notably data on industry norms, costs, customers and best business practices. Other business sectors invest significant sums of money in analyses of their customer base and costs. Fast food chains like McDonalds, for example, can pinpoint exactly who eats their burgers; they know the likely age, sex, preferences and eating habits of their customers. These chains also have extensive information on typical costs and on utilization and other patterns—and they use this knowledge to shape business practices. In contrast, ECE managers who want to find out how their program utilization rates or expenditures for food or classroom supplies track with rates or expenditures at other similar centers typically have little or no information that will help them make these comparisons.

It is difficult to find staff with the right mix of skills to guide ECE providers to become better business managers.

Most of the organizations that were sources of information for this issue brief and that offer in-depth training and TA on ECE business management are financial intermediary organizations. Several interviewees from these organizations mentioned that they initially became involved in business-related training for ECE providers because TA staff in the early childhood field often do not have enough knowledge and direct business experience to do this work.

But while financial intermediaries understand how to operate small businesses, they are not always familiar with the early childhood world and the particular problems that face small-business owners in this market. Given these limitations, it is very hard to find staff with sufficient knowledge of both worlds to provide effective training and TA on the business side of ECE. Furthermore, even staff who have expertise in both areas are unlikely to be successful unless they also have the right interpersonal skills—for example, good rapport with providers and the patience needed to help beginners in business management learn without succumbing to frustration.

A final problem is that skilled fiscal staff members of ECE programs and organizations are rarely prominent in the field or adequately networked to one another. (One observer calls these skilled TA providers the “unsung heroes” of the field.) They often do not sit in positions of prominence and are rarely connected to key universities or national organizations; more often than not, they quietly work behind closed doors to develop and lead successful ECE programs.
TRAVAIL AND
TECHNICAL ASSISTANCE

BUILDING EFFECTIVE TRAINING
ECE experts and others concerned with the need for ECE providers to become better business managers routinely call for “training” as the solution to the problem. And indeed training is the most common strategy used to try to strengthen the business side of ECE. Public and private funders have spent significant sums on initiatives aimed at training ECE providers to improve their business skills.

But the interviews conducted for this issue brief indicate that it is not enough to look to business training per se as a strategy that can make a difference: It matters how that training is structured and organized—for example, when training is delivered, whether it takes advantage of management tools and whether it is provided as part of an ongoing relationship with the provider.

Generic broad-brush business management training, delivered in a classroom, appears to have little impact.

A great deal of training that is offered to ECE directors, managers, and staff—including training required for a degree or for earning an ECE teaching credential or a QRIS rating—consists of one or a series of presentations that proceed through standard business-management topics. Typically this kind of standard training is not activity-based nor is the content tailored to the management problems that the trainees themselves consider most pressing.

Several of the interviewees for this issue brief, from financial intermediaries such as Community Development Financial Institutions or Small Business Development offices, had sponsored or led these kinds of standard training programs. These informants have concluded that standard, broad-brush training in ECE business administration is not the best way to address the problem. Nearly every one of the informants—including one interviewee from an organization that had developed a 13-week curriculum and another that offered a 25-hour business-planning course—have either ceased to provide this kind of training or recognize that it is of limited value. Those that continue to offer general ECE business training typically limit it to short-term presentations that are used as a calling card for future, more specified training.

One interviewee described what she saw as the limitations of generic training:

…all the courses and stuff… it doesn’t really stick. We see this with our borrowers. They will have come to one of our training classes, and then they come in to borrow and we ask to see their financials and, more often than not, they don’t have them.

If generic business training has only a marginal impact on the trainees, are there ways to structure training that make it more meaningful and useful? Interviewees, who often spoke from the experience of disappointment with generic training, made a number of observations about how to improve on this approach:

Training should be specific, hands-on and focused on providers’ needs.

Informants stressed that in-depth, hands-on training is much more likely to make a lasting impression on providers than training that touches on a number of topics lightly. Interviewees also observed that this kind of training is especially valuable if the focus is on a real-life challenge that a provider is currently facing. As one interviewee said:

… we try to find out what’s really bothering the directors and start there. Maybe it’s enrollment, or cash flow…

Our interviews found some examples of this type of effective training. For example, First Children’s Finance (FCF) offers a wide range of training on multiple topics, all in short modules, and notably, tailored to the needs of the trainees. In addition to approximately 10 core training modules, FCF trainers have focused on such topics as: the budget implications of full enrollment, managing the government-sponsored child care assistance program and fundraising. Good Work Network begins by helping trainees learn about a task that they need to carry out as part of their daily operations and only later introduces training on more wide-ranging topics. With a similar focus on immediate concerns, the Massachusetts Building Strong Centers (BSC) Training Institute targets administrators who want to plan or implement a project to improve their facilities or create new ones; participants are required to submit a competitive application and training is focused on helping the organizations that are selected for the training achieve the goals outlined in their applications. The First Children’s Finance Growth Fund uses a design that resembles the BSC approach—competitive applications and assistance to the selected trainees to move ahead with the plans they propose to implement in their applications, which may or may not include facility development.

Training should be organized around manageable steps and concrete tasks.

One of the advantages of the fine-grained, hands-on approach to training is that it encourages trainers to break topics down into manageable steps. Staff at both Good Work and First Children’s Finance noted that this step-by-step design is an important key to successful training. For example, training that uses carefully structured modules that go into detail about a particular issue is preferable to training that proceeds rapidly from topic to topic.

Training works best when it is used in tandem with ongoing technical assistance.

Informants stressed that the ability to follow up training with TA makes it possible to reinforce—in real time—
what is learned in the training session. One interviewee explained why her organization finds TA so useful:

If you stay with them over time…and they start to be able to show you their revenue and expenses on a monthly basis…do they actually understand how to use the budgeting and cash-flow analysis?…then you can get a sense of whether or not this is sticking…

First Children’s Finance works with its Growth Fund participants for up to three years. BSC provides a year of technical assistance. Good Work has been working with some centers for several years. All three report positive results.

Training should take into account the realities that shape the work lives of ECE managers and staff.

Several interviewees stressed that to have staying power, training must take into account the particular time constraints and locational needs of the trainee organizations. Because ECE staff and managers are often overworked even without added obligations of training, gaining their commitment to and engagement in training requires adjusting to their needs and schedules.

Some informants felt that taking trainees out of the child care centers where they work gives them the uninterrupted time they need to focus on learning new tasks. Other organizations bring training into the centers, with the trainer sitting alongside the trainee and addressing real-life problems—a process that often includes demonstrating tools and techniques that can help solve the problems. But while interviewees felt that approaches like blocking out uninterrupted time or hands-on TA can make a difference, there remained widespread agreement that lack of time remains a serious barrier to successful training.

Training/TA should take advantage of technological tools that help providers solve problems.

Several informants believe business training should include tools such as templates for budgeting or break-even analyses, fiscal management software or other technology supports. First Children’s Finance has recently revised and strengthened the resources and tools section of its website (www.firstchildrensfinance.org) to include a range of documents that cover all of the fundamental components of an ECE business. Self-Help created similar tools and templates for its clients.

Good Work Network tends to use off-the-shelf tools such as child care management software and Quickbooks and then focuses support on use of these tools, including helping trainees to populate the software so that they can begin to use it. Good Work uses and develops procedures that make fiscal management faster and easier—for example, a system that allows bank statements to be easily downloaded into accounting software, which then automatically populates financial statements. The agency is about to launch an initiative that will offer participating trainees what it calls an “office makeover.” The TA provider will suggest everyday systems that make life easier for the program—for instance, what systems should be triggered when a parent hands the program a check. As one interviewee said:

…the most valuable resource these centers have is time….so how do we create systems that produce the desired result with the minimum amount of time?

Trainers and TA providers need to understand both ECE and business management.

As noted, finding staff with knowledge and experience in both ECE and business management is difficult. One interviewee said:

We had a fantastic person who understood family child care as a business and partnered with us to offer classes in English and Spanish….but when he left we were never able to pick up where we left off. Finding the right person to fit the work was critical to success…and we really struggled with this.

One popular strategy for finding TA providers is to seek help—typically help given on a volunteer basis—from the broader business community. But for the ECE field this approach has significant shortcomings. Most informants have found that volunteers from the business world do not know enough about ECE businesses as opposed to generic business management. Volunteers needed patience to build relationships with caregivers with varied experiences and backgrounds, and they had to be willing to spend time and energy helping providers with detailed tasks like bookkeeping—or with very simple ones like balancing a checkbook. One interviewee explained why recruiting business people as TA providers has been disappointing:

…it sounds like a good idea, but when push comes to shove they don’t have the hours when the programs need the hours….or they really just want to come in and look at the financial statements and do this sort of 50-foot analysis but not help with the data entry…

One informant found, however, that college students—especially those studying accounting or business management—were excellent volunteers. The students could get credit for the time spent working in centers, had the computer skills to help implement automated systems, and could themselves learn a great deal from the day-to-day experience of helping a director populate a new I/T system or implement a new management procedure.
Increasing the Motivation to Engage in Training

As interviewees noted, even the best training has no effect if managers and leaders of ECE organizations don’t think that they need it or don’t seek it out; and if training is thrust upon them, they are apt to endure it without putting what they were taught into practice. Interviewees emphasized the need to build motivation to encourage managers and leaders to see training and TA as useful tools that will help them solve their more worrisome management problems. The following observations capture some of the techniques and approaches that interviewees think will promote that kind of training:

Effective Training/TA Takes Advantage of Teachable Moments.

Interviewees stressed the importance of making training/TA available at strategic points in time. For example, the predevelopment process that precedes applying for a grant or loan can be a teachable moment. Applicants are focused on preparing the financial information necessary to secure funding and therefore are open to assistance. They are also able to apply the information immediately. This teachable-moment approach is key to the success of First Children’s Finance.

Tax Time can also be a teachable moment. The Corporation for Enterprise Development (CFED) sponsors a Self-Employment Tax Initiative (SETI), which offers help to small businesses to fill out tax forms. Small child care providers have turned out to be one of the largest groups of customers for this service. Illustrating how tax assistance can open the door to other kinds of help to strengthen business management, several SETI partners have supplemented tax assistance with a range of other supports for child care businesses. For example, the Central Vermont Community Action Council in Barre, Vermont delivers tax preparation services that not only include help with Schedule C but also guidance to self-employed child care providers to enable them to better understand their year-round business recordkeeping needs and build assets. The Nehemiah Gateway Community Development Corporation in Wilmington, Delaware operates a Financial Service VIP (Virtual Incubator Program), which includes free tax preparation, monthly recordkeeping services, help with retirement planning, and long-term savings options focused on Certificates of Deposit and/or IRAs.

Just like a loan application process or tax time, a Financial Crisis can turn into a teachable moment for ECE businesses. As one TA provider observed:

“Fear is a great motivator. When something is keeping you up at night; you will make changes…”

Interviewees agreed that teachable moments are a good entry point for TA, but that the process should not stop there. Ideally, TA providers identify emerging needs over time and offer assistance in phases, with each task building on the previous one.

Engaging Uninterested or Reluctant Providers Requires Focus.

Teachable moments only occur when an ECE provider recognizes the value of business management and seeks out help. What, however, should be done about service providers who don’t seek out help and may not recognize the warning signs of a program in financial trouble? Some interviewees felt that requiring business-management training—as part of an early childhood degree or credential, a QRIS, or a grants program—was advised. Others felt that mandated training is unlikely to work, largely because this approach leads to the generic broad-brush training that has not proven effective, but also because ECE managers who attend training only because they are required to do so are unlikely to retain the knowledge offered in the training sessions. A more modest approach than training to help precarious businesses avoid failure is simply to distribute written information alerting providers to problems. For example, First Children’s Finance widely distributes a document called 10 Warning Signs of Financial Problems, which is also posted on the organization’s website.

In general, most interviewees agreed that funders and policy makers should be encouraged to recognize that sound business management is key to long-term sustainability— and that they should communicate that message to the service providers that they fund and regulate. And rather than requiring training, funders and policy makers could ask ECE programs to report on business outcomes (for example, what is your cost per child? vacancy rate by month? number of days cash on hand? number of days receivable?)

Effective Training/TA Draws on Peer Learning and Support and Builds Trust.

Interviewees repeatedly stressed the importance of peer learning and support. Good Work groups trainees by their skill levels; aside from the benefit of targeting material at the right level, staff say that this kind of grouping helps to build and reinforce peer learning. Providers in the groups see that many of challenges they face are not unique to their particular program but are shared by their peers. In many cases, they also come to see that the challenges are industry-wide problems.

Building trust among group members and between those individuals and their trainers is important for any training experience, but several interviewees pointed out that trust is especially critical for ECE business training. Financial management is a sensitive subject for many ECE providers, who are often insecure about their limited financial skills and knowledge. Furthermore, many ECE providers fear sharing potentially confidential information with colleagues viewed as competitors. Interviewees repeatedly stressed that the best antidote to these problems is creating a training environment in which trainees see both the trainer and fellow trainees as colleagues with whom they can be open about the difficulties they face.

Enthusiastic Groups of Trainees Can Spread the Word about the Value of Training/TA.

A cohesive peer group of trainees can help other providers
The business side of ECE programs

The financial rewards offered by grants and loans can heighten the appeal of training/TA and can support the efforts of trainees to become better business managers. Most of the interviewees have paired training/TA with grants and loans at some point in the process of working with providers. For some organizations, such as the First Children’s Finance Growth Fund, access to capital has been front and center; in others it is simply one of several possible supports.

Some interviewees believe that offering small rewards along the way rather than a single upfront grant will keep providers engaged. Typically this approach means that every time participants complete a particular section of training or a key task they are eligible for another reward.

Despite informants’ endorsements of financial rewards, the consensus was that providing grants and loans alone is rarely enough to help a faltering ECE business stabilize. However, many interviewees said, in combination with training/TA or in combination with Shared Services—the strategy that is discussed later in this issue brief—financial rewards can make a difference.

The limits of training and TA

Some of the interviewees felt that it was important to be clear about the extent to which sound management can—and cannot—make a difference. Louise Stoney and Anne Mitchell, co-founders of the Alliance for Early Childhood Finance, have crafted a simple formula—which they refer to as the “Iron Triangle” of ECE finance (see lower left)—to explain the factors that must be in balance for a program to be fiscally stable.

The three sides of the Iron Triangle—maintaining full enrollment, collecting fees in full and on time, and collecting revenues that fully cover costs (fees and third-party funding if required)—largely define the financial health of child care programs. Stoney and Mitchell point out that balancing money inflows and outflows is essential in ECE businesses, but that doing so is particularly challenging in the current recession economy. When seeking to balance their budgets, ECE directors typically focus on their rates—the price charged to parents or received as reimbursement from government. While the rate is important, ECE income is also profoundly influenced by the two other factors: full enrollment, and full and prompt fee collection. No matter how high the rate, it won’t translate into income unless the program is full and collecting all of the fees owed.¹ Two critical tasks for training and TA are to help ECE managers understand how to accurately calculate the cost per child and establish a rate structure that works, and to ensure that they have systems in place to monitor the Iron Triangle on a weekly basis and are ready to take quick corrective action when needed.

If training/TA services are delivered well to motivated participants, they can help improve the business side of ECE. There are, however, some ECE businesses for which even the best training and TA is not sufficient. Anne Mitchell, who is a national expert on ECE finance, has developed a set of cost models that can be used to look at the impact of size, collections, rates, staffing and quality measures on ECE budgets. Her work demonstrates that operating a high-quality center that serves fewer than 100 children is extremely difficult. In most states, an ECE program that has staff-child ratios close to those recommended by the National Association for the Education of Young Children (NAEYC) must serve more than 100 children, maintain enrollment at 95 percent or higher, and collect all available public and private revenue in full just to break even. Given that a 95 percent utilization rate is rarely possible, and given that most states impose numerous limits on reimbursements for low-income children, even the best-run stand-alone center is unlikely to bring in enough revenue to offer high-quality services to low- or moderate-income children.²
The focus of training and TA is on building the capacity of individual programs and providers to perform well—which in the ECE sector means not only performing well programmatically (for example, by promoting child development and supporting families) but also performing well on the business side of operations. But when, as often happens in the ECE sector, a program lacks the internal capacity to benefit from training or TA to strengthen the business side of operations, are there other ways to tackle the problem of weak business-management capacity?

One promising solution is capacity building that is external to individual programs—in other words, capacity building that focuses on improving performance not within a particular program but for the field as a whole. Carl Sussman, an organizational management consultant who has worked with a number of nonprofit sectors on capacity building, calls this approach “systemic capacity building.”

Sussman argues that it is inefficient or ineffective to build certain specialized capabilities within every organization, especially within smaller organizations. In such cases it is makes more sense to make those capabilities available and accessible through resources and structures within the community rather than within each organization. In other words, writes Sussman, sometimes it makes more sense to give a man a fish rather than teach him to fish.

Shared Services, which will be discussed next, is a leading example of this systemic capacity-building strategy for the ECE sector.

**Systemic Capacity Building: Working on a Different Scale**

A growing number of ECE leaders, funders and policymakers across the U.S. are exploring the Shared Services strategy. At its core, Shared Services is a simple idea: Organizations can reduce costs and improve the strength of management and the quality of services by sharing administrative functions with other organizations that provide the same types of services. By joining forces, early childhood programs are able to stay small (and thereby preserve the intimate settings that are important to many families) but are also able to improve their long-term financial strength and management capacity and their ability to offer customers a high-quality service.

ECE Shared Service Alliances can take many forms. In Chattanooga, Tennessee, the Children’s Home/Chambless Shelter, a large child-development center, provides comprehensive management services to 10 community-based ECE programs that had previously been struggling financially and had been unable to provide high-quality services to families. Today all of the centers not only offer top-quality early learning (97 percent of the children whom the center serves score well on kindergarten-entry screening) but the centers are also 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 that were unavailable to them before they were involved in Shared Services.

Infant Toddler Family Day Care (IFDC), an Alliance of home-based ECE providers in Fairfax, Virginia, includes about 130 family child care providers, most speaking a primary language other than English. 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.

Sound Child Care Solutions (SCCS), a center-based Alliance in Seattle, Washington, currently includes six centers that are located in diverse neighborhoods throughout the city, including programs that are large and small, faith-sponsored and employer-sponsored, low-income and middle-class. Nine of the 20 SCCS classrooms are dual-language (English with Spanish or Somali or Vietnamese). SCCS emphasizes use of an anti-bias curriculum and reflective practice; all staff have a mentor teacher, have opportunities for coaching and coursework, and participate in a monthly community of practice to share ideas and deepen their effectiveness in the classroom. Classroom assessment scores (using the highly respected ERS environmental rating scales developed by Harms and Clifford) are among the highest in the city.

The Alliances described above are using a Shared Services approach to developing new business models. Each has a different legal and organizational structure, but the overall approach is similar: they are centralizing management functions to save dollars and build professional management capacity. And the results are strong. All of these Alliances have improved program quality, strengthened work environments for staff, and built fiscally strong and sustainable organizations.

Many center- and home-based ECE programs, however, are not ready to participate in an Alliance that is shifting the traditional business model in such a profound way.
These programs may be interested in saving time and money, and see the need to join forces, but seek a less intensive first step. To address this need, some Alliances begin by offering Shared Services on the web. Indeed, Alliances in six states (Colorado, Florida, Georgia, Louisiana, New Hampshire and Pennsylvania) are currently taking this approach, typically using branded or customized versions of a national Shared Services electronic platform, www.ecesharedresources.org.

Although a web-based approach to Shared Services is a good first step, experience to date suggests that it is unlikely to generate the level of results that are possible from a more in-depth approach. Indeed, cost modeling conducted by Anne Mitchell indicates that more in-depth approaches that restructure staff and centralize administration—such as the Shared Service models used by the Children’s Home and SCCS, described above—can make a significant difference in the bottom line of a small, high-quality ECE program.12

**Shared Services on the WEB**

ShoredSourcePA is a new Alliance that offers supports to ECE providers throughout Pennsylvania via the web. Services include cost savings on food and supplies; staff handbooks; guides about how to terminate staff, job descriptions and staff appraisals; parent handbooks, forms and templates; and training resources for parents and staff. A special section of the electronic platform is linked to tools and resources that ECE programs need to participate in Keystone Stars, the Pennsylvania QRIS. ChildWare, a child care management tool to automate administrative and financial activities, is also available. And a new module, ECEHire.com, has been designed to help programs recruit and hire staff.

**READINESS FOR SHARED SERVICES**

Although Shared Services can create significant benefits, attaining those benefits requires an equally significant shift in the ECE business model. Experience indicates that changing the model is difficult, requiring that ECE managers, boards, owners and staff remain open to change and be willing to commit to a new approach. Even the less intensive approach—Shared Services on the web—requires leadership from intermediary agencies that are willing to step outside the box and try new ideas. Interviews with informants engaged in creating Shared Service Alliances yielded insights about the type of ECE providers and intermediary organizations that are most likely to be interested in, and successful with, this approach. The interviews also indicated that the fit between providers and a particular Shared Services project depends at least in part on the type of Alliance and the depth of services it provides. Key lessons about readiness for Shared Services learned from the interviewees are:

**ECE directors, owners or boards whose goal is to focus on children and their families and become better educators are likely candidates for Shared Services.**

An interviewee whose organization supports an in-depth Shared Service Alliance described participating providers:

> The money side tends not to be their skill set. They're excited by child development and would like the Alliance to give them more time to work on improving quality. Instead of being drawn out of the classroom [to attend to administrative matters], they want to focus on the educational side of ECE.

Reflecting this description, many ECE program directors are experts in child development—and not in accounting. In fact the business side of ECE often requires a set of skills and personal traits that are not always relevant—and may even be antithetical—to what is needed to function as an educator and caregiver. For example, if a director's goal is to build a strong partnership with a parent to promote positive child development and early learning, it can be hard to be stern with that same parent when tuition is past due. Similarly, if the goal is to mentor staff and be available to observe and assist with classroom interactions, it is hard to shut the door and focus on paperwork. Compounding these problems, if a director's ECE program is small— as most are—that program simply cannot afford to hire additional staff with administrative expertise to free up the director's time for educational work. By taking over administrative tasks, Shared Service Alliances help directors find the time they need to support staff and promote early learning.

**ECE managers, owners and boards that understand the value of sound business management and are willing to invest time and energy in transitioning to new business structures are good candidates for Shared Services.**

Interviewees pointed out that in order to reap the benefits of a Shared Service Alliance, managers/owners/boards must first acknowledge the importance of good business management and work with the Alliance hub to put their financial records and procedures in enough order to set the stage for shared management. Program managers who fail to acknowledge financial problems, or who cannot at least begin to address them, are often poor candidates for a shared-management Alliance. And providers with finances in disarray can pose a potential risk to other Alliance members. Being part of an Alliance also means devoting time to joint decision making about how to structure shared administrative practices.

Regardless of the scope or depth of the Alliance, successful users of Shared Services recognize that they have more to learn—and that the learning process is ongoing.

It is very helpful for participants in Shared Service Alliances to have confidence that they can adapt to new ways of doing business. But several interviewees pointed out that certain kinds of over-confidence can work at cross-purposes with the Shared Service approach. One interviewee said that the best candidates for Shared Services are managers who:

- Are experts in child development—and not in accounting.
- Understand the value of sound business management and are willing to invest time and energy in transitioning to new business structures.
- Distinguish clearly between educational and business-related responsibilities.
- Acknowledge that they have more to learn—and that the learning process is ongoing.
who recognize that, just like promoting healthy child development, operating a small business is a complex task:

Providers who look at the business side and say “This is easy, I can do this,” are less likely to think they need Shared Services.

Similarly, successful users of Shared Services were seen as managers who understood the concept of continuous quality improvement. These users not only recognize that they do not already know everything there is to know about operating a successful small business—but they also understand that they, like all business managers, can always learn something new.

Users of Shared Services, and successful Alliance hub agencies, must be comfortable with collaboration and communication and open to sharing power, information, and decision making. Interviewees indicated that collaboration and communication are key ingredients of successful Shared Service projects. For example, the projects typically call on providers to communicate openly with their colleagues on a variety of topics—for example, by taking part in a joint TA session to figure out how to balance a budget, engaging in reflective teaching practices or pursuing many other similarly collaborative activities. One interviewee observed:

In a sense these are people who are willing to let others see their dirty laundry—to expose their problems to their colleagues—a process that makes them vulnerable but that can also be a sign of real strength and confidence.

Collaboration in Alliances may also mean a willingness to trade in some of one’s independence in exchange for group procedures that may be more efficient but that may also involve what initially seems like extra trouble.

An often overlooked skill that many participants in a Shared Service Alliance need to have is the ability to explain to their boards, donors and other decision makers how a Shared Services approach will change policies and procedure and why these changes will benefit the center or home. To support members as they seek to develop these kinds of explanations, Sound Child Care Solutions has developed a power-point presentation that members can use or adapt to help them talk about the beneficial features of their new Shared Service arrangements. Similarly, Alliance hubs need to think carefully about how they communicate with current or prospective Alliance members. One Alliance hub manager noted:

The value of … [our] … approach to Shared Services is that it involves structures that allow peers to interact [monthly meetings, with time for informal networking followed by a training session] and for Alliance members to have access to personal TA—via emails, text messages, phone calls, GoToMeeting calls and in-person visits: All of these modes of personal TA are used, and depending on the needs of the individual provider, all are valuable.

**ADVICE FOR ALLIANCE MANAGERS**

While Shared Service Alliances are still relatively new, the individuals interviewed collectively have dozens of years of experience in managing Alliances and providing services to a wide range of ECE organizations. In the interviews, these individuals noted the following lessons that may be useful to managers who are considering starting up new Alliances:

Managers of Shared Service Alliances should be prepared to work with providers who have little or no experience with computers and/or are hard pressed to find the time to use new applications.

Effective Alliances rely heavily on information technology. While computer literacy has not been a significant barrier to implementation, interviewees noted the wide range of computer skills among the providers they serve. Although many providers are comfortable using the web and web-based applications, Alliance hub agencies cannot count on computer literacy. “In a couple of cases,” said one manager of a web-based Alliance, “I had to show a provider how to turn on the computer.”

Given the mix of comfort levels with technology among ECE providers, Alliance managers should be proactive in determining how best to make their systems user-friendly.

The consensus among interviewees was that while lack of knowledge about or discomfort with technology certainly slows down the use of Shared Services, the difficulties need not be insurmountable. However, planners should consider whether they have built in adequate time for TA

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**Shared Services Strengthens PROGRAM QUALITY**

In addition to strengthening business management and sustainability, Shared Services allow ECE businesses to redeploy resources to invest in:

- Children’s learning and development—regular child assessments as well as enhanced supports for reflective practice, mentoring and coaching of staff;
- Teacher quality—opportunities for higher pay, more attractive benefits, college coursework and a more positive work environment; and
- Family involvement and support—offering family services, including parent support groups, as well as health, mental health and social services for children and families who need them.
on use of computers and have access to I/T support.

Marketing the services is also important. SharedSourcePA hired a staff person to focus on marketing membership and engagement. In addition to knocking on doors and demonstrating the platform one-on-one, this Alliance found that targeted email messages sent biweekly to chapter members helped to draw their attention to the service and tell them what it offered.

**Building an effective Shared Service Alliance takes time.**

Because establishing a successful Shared Service project is a complex undertaking, often an Alliance will start with a few services and then add more over time. Another approach is to begin with a full complement of services but only two or three members, and then gradually expand the number of participants. And because Alliances typically require investments that do not immediately pay for themselves, “patient capital” is needed to underwrite expenses until the Alliance can become self-supporting—a process that typically takes about three years. It is critically important for Alliance sponsors and managers to be clear about these realities upfront as they discuss their plans with funders, participants and state agencies. It is equally important to line up the patient capital at the outset of a project, when the interest is highest. Launching without sufficient long-term capital runs the risk of failure after the first year or two, when funders’ attention may have turned to other pressing issues but when the Alliance may not yet be economically self-sufficient.

**MOVING THE FIELD FORWARD**

Based on what the sponsors of this issue brief have learned from the thoughtful insights of interviewees and based on our own knowledge of ECE business-related issues, we suggest that the field explore four actions that we believe can take current ECE business-related efforts to the next level.

1. **A concerted effort should be made to conduct research that generates solid industry-wide data on norms, costs, and customers for ECE services.** The goal should be to generate data that can be shared with ECE managers in a user-friendly format, making it easy for managers to use the information in their day-to-day decision making.

   Significant time and resources have been invested in research to identify and test the factors that most strongly predict quality in early childhood classrooms. Based on this research the field has developed quality benchmarks as well as a range of tools to measure classroom practices that promote effective early learning and that inform training/TA that is focused on improving the quality of programs.

   But there is little or no similarly detailed guidance available to a director who is struggling with administrative issues such as: How much staff do I need to effectively process both CACFP [the federal food subsidy program] and state child care assistance paperwork? And although some states and communities have conducted economic impact studies of ECE that provide useful snapshots of programs’ enrollment levels, prices and fee structures, these data are not precise enough to guide decision making for a provider who seeks to answer frontline management questions like: How do my food expenditures track with those of other centers? or What is an appropriate (or typical) vacancy rate for the month of July? Moreover, the field has little or no systematic information to offer a director who suddenly finds herself unable to make payroll because she simply did not recognize the fundamental warning signs of a business in trouble.

   National Louis University has developed the Program Administrator Scale (PAS) tool to measure the overall quality of administrative practices in ECE programs in 10 areas. Using the PAS is a helpful way to assess a program’s overall organizational quality; however the PAS report is an annual snapshot and is not designed to provide the ongoing, specific fiscal information that administrators need to effectively monitor the financial health of their programs on a regular basis.

2. **The ECE field should create a dashboard of key indicators that uses management data to regularly monitor the financial health of ECE programs.** The dashboard would offer programs simple, clear tools that would help assess financial health on a regular basis—at least monthly, and perhaps even weekly for data like enrollment and vacancy rates that often require immediate actions once problems are flagged.

   The management dashboard would give directors a concrete way to see where they are vis-à-vis goals and norms for the business side of ECE. The dashboard would also offer trainers and TA providers who focus on the business side of ECE a way to evaluate the effectiveness of that help. Finally, consistent use of a management dashboard would signal that the ECE field understands that sound management is not ancillary to the quality of services but instead is a critical ingredient of overall program quality.

   First Children’s Finance has developed some templates that permit a close look at the financial health of ECE programs. These tools help administrators and boards know what to look for when reviewing a center’s financial statements (see First Children’s Finance’s Analyzing Financial Statements) However, our interviews suggest that these tools may still be overwhelming for many and/or may not be user-friendly enough to be used without technical assistance. Indeed, the tools were not designed to be used in this way.

   The dashboard indicators suggested here would help
providers assess how their programs are doing in terms of a benchmark like the Iron Triangle (enrollment/fee collection/cost per child) or in terms of measures like the income-expense ratios included in the First Children’s Finance tool just discussed. Most likely the field will need a range of business-related tools for providers depending on their skill levels and on the particular roles they play in their programs.

3. The actions of funders and policy makers concerned with ECE programs should reflect a fuller recognition that sound business management is essential to the sustainability of ECE programs. Funders and policy makers should use key indicators of programs’ fiscal viability to guide decision making about how to support ongoing initiatives and how to frame and invest in new ones. ECE programs that are in current or potential fiscal jeopardy may need targeted business-management assistance along with, or prior to, investments in activities to improve program quality. The goal is not to exclude providers who face business-management challenges but to ensure that they are aware of their problems and encouraged to address them, and that they have access to the supports and TA that they need to succeed. Funders and policy makers can also play a key role in challenging the assumption that independent, small ECE businesses are always the best structures for delivering ECE services and in supporting deeper explorations of systemic capacity building and alternative business models.

4. The ECE field should undertake a concerted effort to expand the pool of TA providers focused on the business side of ECE and to provide networking opportunities and other kinds of supports to skilled fiscal and business management staff of ECE programs. There is a scarcity of TA providers who have the requisite business expertise and knowledge of the ECE world along with the right interpersonal skills to guide the efforts of ECE providers to become better business managers. And effective managers of ECE programs are too often isolated and do not have opportunities to pool their knowledge and learn from peers.

To address these problems, leaders in the ECE field should work together to identify and recruit individuals who are skilled in ECE business management and bring them together to share best practices and build on their collaborative learning. Leaders should also begin to develop documents that describe best practice in ECE business administration and to create tools that can help others replicate success. Additionally the field could explore possibilities to more systematically draw on the help of college students—a group that according to several interviewees for this issue brief, offers the field real assets as TA providers.

**CONCLUSION**

This issue brief has identified some of the lessons learned from current and recent efforts to fortify ECE businesses, and describes some important next steps that can be taken to make more progress. One important focal point of future work should be additional research and information gathering: While experience and cost modeling suggest that systemic capacity-building strategies like Shared Services are promising, the insights from interviewees reported in this issue brief indicate that shifting the traditional ECE business model—a process that is intrinsic to using Shared Services—is not easy. Additional information on strategies or initiatives that most successfully motivate program directors, owners and boards to try new business models would be very valuable.

At the same time, the field should explore new policy and funding options that encourage the kind of systemic capacity building that underlies the Shared Service strategy. Finally, efforts to produce more knowledge about the cost and benefits of Shared Services that take a close look at the outcomes that are generated using diverse Shared Service program models will make an important contribution to the overall work of strengthening the business side of ECE.

Pursuing the agenda that has just been described will be challenging, especially given today’s austere fiscal climate for public services. But, as stressed throughout this issue brief, it is important to recognize that sound business management plays a key role in the success of early childhood programs. Indeed, improving the quality of early care and education rests in large measure on strengthening these small businesses. Unless policy makers and leaders take the business side of ECE fully into account, it will be difficult, if not impossible, to ensure that our society can reap the benefits of high-quality ECE services that pave the way to children’s success in school and later life.
LIST OF INTERVIEWEES

Diana Bender | Co-Executive Director, Sound Child Care Solutions
Phyllis Cassidy | Executive Director, Good Work Network
Vontrise DeBoe | Child Care Shared Services Director, Good Work Network
Nancy Freeman | Executive Director, Institute of Mental Hygiene
Sherry Guarisco | Louisiana Partnership for Children and Families, Louisiana Alliance for Shared Resources
Carolyn Hannon | Collaboration Manager, Early Learning Connections, Community Foundation of Middle Tennessee
Christie Hendricks | Coordinator, California Preschool Instructional Network, Region 7
Laura McAlister | Co-Executive Director, Sound Child Care Solutions
Karen O’Mansky | Director, Community Facilities Fund, Self-Help
Karen O’Neill | Director of Capital Investments, First Children’s Finance
Farrah Parkes | Senior Program Officer, Management Services, Philadelphia Health Management Corporation
Lisa Polk | Manager, Georgia Alliance for Quality Child Care
Deb Ruegg | Director of Consulting, First Children’s Finance
Tyrone Scott | Program Manager, Community Services, Delaware Valley Association for the Education of Young Children
Mia Strugar-Fritsch | ECE Business Services Program Manager, Early Learning Ventures Alliance
Carl Sussman | President, Sussman Associates
Josie Watters | Vice President of Home Operations, Early Connections Learning Centers
Judy Williams | Program Director, Early Learning Ventures, The David and Laura Merage Foundation
Elizabeth Winograd | Program Manager, Insight Center for Community Economic Development

1 See, for example, Brooks-Gunn, Han and Waldfogel, 2002; Dearing, McCartney and Taylor, 2009, Temple, Reynolds and Miedel, 2001; Ramey et al., 2000; Schweinhart et al. 2005.
3 See, for example, resources from First Children’s Finance (http://www.firstchildrensfinance.org/Resources.html), Self-Help (http://www.self-help.org/search?SearchableText=child+care) and Opportunities Exchange (www.opportunities-exchange.org)
4 For more information, go to: http://www.cfed.org/programs/seti/demonstration/local_partner/index.html
9 For more information on Shared Services in ECE go to www.opportunities-exchange.org and http://www.earlylearningventures.org
10 For more detailed information on these Alliances, go to www.opportunities-exchange.org.
11 In Colorado, the Shared Services work is led by Early Learning Ventures, which has greatly expanded the capacity of the national platform to include links to state licensing as well as a web-based child management tool called Alliance CORE. For more information, go to www.earlylearningventures.org
12 For an analysis of the cost-benefit of various Shared Services, see Mitchell (2010) Cost Quality and Shared Services webinar (http://www.box.net/shared/sy03866k6m) and Shared Services Financial Impact powerpoint (http://www.earlychildhoodfinance.org/finance/cost-modeling)
Opportunities Exchange helps organizations that work with low income people to improve financial sustainability and program or product quality through the formation of Shared Service Alliances.

Louise Stoney is the Co-Founder of Opportunities Exchange, and the Co-Founder of Alliance for Early Childhood Finance. She has worked on early care and education policy and finance with state and local governments, foundations, national policy organizations, service providers, industry intermediaries and child advocacy groups in more than 38 states. Her publications are available at www.earlychildhoodfinance.org.

Susan Blank is a writer and editor for nonprofit organizations specializing in social policy issues. She has written extensively on early childhood and family policy, welfare reform, and education. She has been a program officer at the Foundation for Child Development and an editor at MDRC, a social policy research organization.

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