EARLY LEARNING *Ventures*

Shared Services:

A New Business Model to Support Scale and Sustainability in Early Care and Education

by Louise Stoney

October, 2009

DAVID & LAURA MERAGE FOUNDATION

Introduction

A growing body of research makes it clear the quality of care and learning that young children receive before they enter school is critical to their healthy development and ultimately to their capacity to function as contributing, productive adults. Research also underscores that for the large numbers of U.S. children who spend some of their time in early care and education (ECE) settings – both child care centers and family child care homes – it is high-quality ECE services that promote optimal outcomes. Moreover, research is able to specify in considerable detail the various elements that make up high-quality ECE.

But for many providers of ECE, maintaining and raising the quality of services is a struggle. Part of the problem is that the number of the steps required to boost quality – for example, attracting and retaining highly qualified staff, effectively implementing curricula, and conducting regular child assessments – all add new expenses to providers' budgets. And the small child care centers and family day care homes that by far account for the largest share of ECE services in this country function as part of what is now a weak and poorly supported industry that is ill equipped to invest in quality improvement.

Across the U.S. a select group of ECE leaders and funders are pioneering an innovative new management approach, known as Shared Service Alliances. Alliances help preserve two of the key strengths of existing ECE services in the U.S. – their autonomy and diversity – while at the same time allowing providers to take advantage of the economies of scale needed to offer high-quality services. This issue brief presents a short overview of the what, why, and how of this promising approach.

What Are Shared Service Alliances?

Shared Service Alliances are networks of small ECE centers and/or family child care homes within a community that share costs and receive a set of administrative and program services provided by a hub. Alliances use a range of business models but have a common purpose: to strengthen the ECE industry so that it is more streamlined and efficient and thus in a stronger position to deliver high-quality services. For example:

- In Chattanooga, Tennessee, a large nonprofit children's development center called the Children's Home provides comprehensive management services to 10 independent nonprofit child care centers. Centers affiliated with the Children's Home Alliance have been able to raise teacher wages and benefits, lower staff turnover, and raise the quality of services that the centers provide – largely because of the scale and professional staff that come with the Alliance's shared management structure.
- Among other supports, The Infant Family Day Care (IFDC) Alliance in Fairfax, Virginia helps its member home-based ECE providers operate at capacity enrollment by providing expert help with marketing. One of the selling points for these family child care homes is that the Alliance ensures providers have met, and promotes, high standards for quality services. Most IFDC providers are immigrants for whom English is a second language; most IDFC customers are American families. Thus, IFDC has not only helped families find high-quality ECE but has helped these providers find the market they need to run successful small businesses. In a field where turnover is a serious problem, home-based providers affiliated with the IFDC Alliance stay in the child care field 2.6 times longer than the national average.
- The child care centers that participate in Seattle's Sound Child Care Solutions (SCCS) Alliance are located in diverse neighborhoods and retain their community and cultural identities (including their own names); however they are linked by an administrative hub. In addition to offering the centers a host of fiscal and program management services, classroom supports, coaching, and assistance in earning national accreditation, SCCS supports a strong anti-bias curriculum.

Big Where Big Matters and Small Where Small Matters

Shared Service Alliances create administrative structures large enough to employ staff with the skills and time to focus on the business side of ECE. At the same time Alliances allow providers to maintain the intimate settings that many families prefer and that, according to the research evidence that will be discussed shortly, foster good child development. This is especially important because a high proportion of ECE providers are small-scale. The average child care center serves about 75 children and more than eight out of ten of ECE businesses employ 20 or fewer workers (Bureau of Labor Statistics, 2006).

This Issue Brief

As Shared Service Alliances evolve, there is a need for political leaders, policymakers, program administrators, funders, and others with an interest in education and child care to have a sharper and fuller picture of these partnerships. What is the rationale for these Alliances? What do they look like and how do they operate?

To help answer these questions, the issue brief discusses how Shared Service Alliances can improve ECE services and thereby benefit children and families – and it provides additional details about how Alliances function in different community settings and under a new initiative in the state of Colorado. Setting the stage for this information and analysis, the issue brief starts out by examining three background issues – research evidence on the nature and importance of high-quality early care and education, the characteristics and challenges of the child care market in which small child care centers and family child care providers operate, and the changing environment for ECE services and the implications of those changes for the ECE industry.

Background

Why High-Quality Care and Early Education Matters

The long-term economic success of the U.S. depends on ensuring that children – the next generation of citizens – succeed in school and life (Heckman & Masterov, 2004). Recent advances in neuroscience have produced dramatic evidence that young children learn from the earliest moments of life, and that learning is especially rapid in their first five years (Shonkoff & Phillips, 2000).

Early care and education program evaluations have identified a range of strategies that effectively promote social, emotional, intellectual, and physical development and learning (NICHD Early Child Care Research Network, 2005; Marshall et al., 2003; Kontos et al., 1995). As noted, this research has enabled the ECE field to identify a number of ingredients of early care and education – for example, teachers able to engage in reflective practice, regular child assessments, and curricula aligned with those assessments as well as public schools – that make a difference in children's growth and development. Specifically, multiple long-term evaluations of high-quality ECE programs have found that children who attend these programs gain intellectual, social, and emotional competence in the short term, do better academically (in both reading and math) and socially in school, and generally live more productive lives as adults than children who have had no preschool education or have had poor early educational experiences (Rolnick & Grunewald, 2003; Lynch, 2004; Gilliam & Zigler, 2004; Barnett & Ackerman, 2006). Based on this long-term evaluation data, Lynch (2007) estimates that investment in preschool for low-income children could be cost-neutral in about nine years and that by 2050 the benefit-cost ratios for state governments would range from 2:1 to 7:1.

Complementing analyses that underscore the benefits of quality to children's learning and development, Warner (2006) points to the important role ECE services play in regional economies. And Pratt & Kay (2006) use economic development modeling to show that child care is an important employment sector with significant implications for regional economic development.

By forging Alliances, ECE programs can be financially and programmatically stronger, making it more possible to offer affordable, high-quality services in a range of settings for children of all ages.

The Importance of Small-Scale Services

In the field of early childhood services, *small* is one of the specific elements of care and education that has been shown to matter. Research has underscored the importance of close teaching relationships for positive child development and early learning (Ahnert, Pinquart & Lamb, 2006; Howes, 1999, 2008; Birch & Ladd, 1998.) Secure teaching relationships in early childhood can last for years, helping to bolster children who are at risk for later academic difficulties through third grade (Peisner-Feinberg et al., 2001), lower the incidence of challenging behaviors, and increase school competence (Ostrosky & Jung, 2007.) Small child care settings are more likely to foster these deep relationships. Additionally, early childhood programs that are rooted in communities – especially cultural communities – often create a strong sense of responsibility among the staff and a safe home for the children. These programs act like extended families of kin and friends, strengthening relationships and keeping culture and home language alive while preparing children to succeed in school and life (Howes & Shivers, 2006; Howes, James & Ritchie, 2003.) Parent involvement in early learning is also bolstered by effective relationships among ECE staff and parents (Owen, Ware & Barfoot, 2000). And small programs located in communities that parents know and trust, and that reflect families' cultural values, may be more conducive than bigger programs to daily interactions between caregivers and parents.

But in a cross-pressure with great relevance to the work of Shared Service Alliances, staff in very small ECE programs often lacks opportunities for supervision, mentoring, curriculum support, and other professional development activities that foster good teaching practices. As will be discussed in more detail, the Alliance approach of networking providers to one another not only promotes market efficiencies but opens up new possibilities for professional development and related activities.

The Current State of U.S. Services – Inconsistent Quality

Despite extensive research knowledge about the elements of ECE quality and despite a growing demand for ECE, far too many early childhood programs cannot provide the high-quality early learning opportunities that American children need to succeed in school and life. A significant percentage of the ECE programs and services available to families do not meet accepted standards of quality (Vandell & Wolfe, 2002; Helburn & Bergmann, 2002.)

A key reason for the shortfall is that there are often extra costs associated with higher-quality services that are difficult for hard-pressed small centers and family child care homes to manage. Similarly, the cost of high-quality early care and education often exceeds the price most families are willing or able to pay (Pearce, 2006; Helburn & Bergmann, 2002). The next section, which examines how ECE services function as an industry, takes a closer look at the challenges of providing high-quality services at affordable prices.

The Economic Context of ECE Services

Typically Market-Based

Early care and education in the U.S. is essentially a market-based service: providers offer services for a price and consumers choose among those services and pay the price (Stoney & Mitchell, 2007.) Most U.S. ECE services are delivered by the private sector – in for-profit, nonprofit and faith-based center-based programs as well as thousands of home-based businesses. Public agencies that provide early care and education are typically elementary schools that primarily offer part-day classes for preschoolers; however these classrooms represent a small fraction – probably less than 6 percent – of total ECE services in the U.S.[1] Current estimates suggest that the private sector ECE industry includes over 300,000 regulated establishments – 120,000 centers and 214,000 home-based businesses – that serve nearly 10 million children every day (Center for the Child Care Workforce, 2002; National Association for Regulatory Administration and the National Child Care Information and Technical Assistance Center, 2006). Most of these businesses are proprietary (U.S. Census, 2002; Casper & O'Connell, 1998) and even the center-based ones are quite small.

Economists have noted that early care and education is a unique market-based service because it serves both public and private needs (Warner et al., 2004). As a private good, it enables parents to work. As a public good, it prepares children for school and life, enhances the educational system, and helps strengthen our future workforce. But these needs are in a constant tug-of-war. The public-good aspect of ECE services is defined by program quality and staffing standards that increase costs, while the private demand is defined by market forces such as price and convenience.

[1] The National Institute for Early Education Research reports that in 2006 state prekindergarten programs served 942,766 children and a third of these children were served outside the public schools. Assuming the ECE industry serves 10 million children the 628,510 enrolled in school-based pre-K services represent slightly more than 6 percent of the total.

Since most industry revenues are market-based, public funders who are working to produce effective and lasting changes in the ECE field should aim to understand, influence, and build on market principles.

As public funders seek out strategies for improving the quality and reach of early care and education services, they need to recognize the private, market-based face of ECE. Since most ECE industry revenues are market-based, public funders who are working to produce effective and lasting changes in the ECE field should aim to understand, influence, and build on market principles. Shared Service Alliances, which are designed to address key market-driven needs of providers, are consistent with the approach of going with, rather than against, the grain of ECE market realities.

Unusually Challenging Markets

The child care providers who struggle to respond to the tensions between the public and private aspects of their services confront especially demanding market forces: Unlike public K-12 schools or colleges and universities, most ECE businesses rely solely on tuition revenue. The average child care center generates about 87 percent of its revenue from parent tuition (Mitchell, Stoney & Dichter, 2001). In contrast, tuition accounts for only about 36 percent of revenues in public colleges and universities (State Higher Education Finance, 2008). As noted, some states provide direct financial support to prekindergarten classrooms and the federal government funds Head Start programs. However these sources represent a relatively small percentage of total ECE expenditures in the U.S.[2] Most public support for early care and education is distributed as portable subsidy: tuition that is paid on behalf of an eligible, low-income child or a tax benefit for families that pay child care fees. Thus, to remain economically viable, ECE programs must set fees high enough to cover costs, maintain full enrollment, and collect fees (or publicly funded vouchers in lieu of fees) in full and on time. This makes programs especially vulnerable to market conditions.

One very useful perspective on the difficulties faced by entrepreneurs in ECE markets comes from economists at Cornell University (Warner et al., 2004; Warner, 2006) who have concluded that ECE markets are underdeveloped. These scholars cite several reasons why they characterize the services in this way, including:

- *Low profitability because labor expenses are high due to high staff/child ratios and small classes necessary for high-quality services.* Labor costs constitute the majority of expenses in early childhood programs (60-80 percent). Classroom staffing is directly linked to program labor costs and is defined by enrollment. This means that ECE programs must be at or near full enrollment in order to generate enough revenue to pay staff decent wages.
- *Insufficient product differentiation.* It is extremely difficult both for consumers to get objective information on the quality of ECE services and for programs that offer high-quality services to distinguish themselves in the market.
- *Lack of effective demand from consumers for high-quality services.* Early care and education is expensive. The average price for full-time services in a child care center for a preschooler is more than public college tuition in all states (NACCRRA, 2007). Yet families have years to save for college expenses and are often at the peak of their earning potential when children enter college; ECE costs, on the other hand, must be paid when parents are young and typically have limited savings and wages. Not surprisingly, families are very price-sensitive when choosing ECE services. In fact, market survey data suggest that the strongest predictor of the price of early care and education is not the cost of providing the services but the average family income in a market area (Stoney, 1994).
- *Few economies of scale.* As discussed, early care and education in the U.S. is largely composed of very small businesses, reducing opportunities for cost savings that are possible on a larger scale.

[2] Head Start was funded at $6.7 billion for FY 2007; state-funded prekindergarten was $3 billion for 2005-06. Together funding for these two services represents almost $10 billion annually. In the same year consumer spending was approximately $46 billion

Frontline Realities

The preceding sections have focused on the big picture of the ECE market. But from an operational perspective, what does it mean to manage a small child care center or run a family child care home within the ECE market that has just been described? In fact, for managers of small centers, daily operations involve a daunting array of challenges. Typically these demands include tapping into and blending many funding streams, dealing with multiple public and private agencies, and marketing services to families. Managers of child care centers must not only comply with a dizzying array of funding requirements but, as discussed more fully in the next section, must also ensure that their programs meet an increasingly complex set of standards. A director of a small child care center is responsible for so many daily demands – staff who need supervision, a child who needs developmental screening or special health care or just won't stop biting, an anxious new parent, a clogged toilet, an ill cook – that fiscal management tasks often get pushed to the bottom of the to-do list. But without careful and consistent attention to the business side of ECE, revenues decline and programs falter. And managers who are in danger of being overwhelmed by the business aspects of their services often have a very hard time investing the time and money needed to improve service quality.

For family providers, key daily challenges include maintaining full enrollment, and establishing and maintaining effective systems for collecting fees from families. Too often these small providers are unable to fully meet the challenges associated with securing extra outside (third-party) funding that can supplement parent fees: they are not in a position to manage the paperwork involved in applying for this third-party funding and in some cases they cannot demonstrate that they have reached the quality standards specified by the funder.

The centers and family providers who form and join Shared Service Alliances do so against a backdrop of the tough daily challenges and demanding market conditions that have been described in this section. Alliances are also shaped by another set of forces – growing appreciation of the value of early childhood services and growing demands for accountability and positive child outcomes. These dynamics are discussed next.

Trends in How ECE Services Are Viewed and Treated

Mounting Support

Public support for early care and education has grown markedly in recent years. Business and philanthropic leaders have stressed that investing in children during the earliest years of their lives yields very high returns for the national economy. And policymakers across the U.S. have made preschool funding a priority. Between 2000 and 2007, state funding for prekindergarten programs increased by 109 percent (Stimolo, 2006). *PreK Now* reports that despite a troubled economy, gubernatorial proposals for FY10 still call for growing state investment in preschool services (Pew Center on the States, 2009). And in fact, many policymakers, business leaders, funders, and others support universal access for ECE services – ensuring that early care and education is available to all U.S. children.

Increased Focus on Quality, Accountability, and Results

As convictions about the value of ECE have grown, leaders, especially those in the private sector, have increasingly called for ECE programs to be held accountable for their work. The Partnership for America's Economic Success worked with business, finance and policy leaders to craft a set of guiding principles for ECE policy and finance. According to the coalition that developed the principles, high-quality child development programs must have "clear goals, rigorous evidence of likely success, draw on best practices… [and a focus on] continuing quality improvement."[3] The National Institute for Early Education Research uses 10 standards to rate the quality of preschool programs, with the standards including such factors as: appropriate curriculum, teacher qualifications (B.A. degree, with specialization in child development preferred) and staff in-service training, vision/hearing/health screenings and family support services, healthy food and attention to nutrition, and site visits.

In a related trend, state leaders have begun to craft industry-wide standards and state-level infrastructures for ECE. For example, many states have developed systems and support for the professional development of early childhood workers. And a number of states have initiated quality rating and improvement (QRIS) systems that rate the quality of ECE providers (often with stars, as in restaurant ratings) and that typically reward quality through grants, higher public subsidy rates, and access to a range of third-party financial supports.

Adapting to a Changing Environment: The Need for More ECE Industry Infrastructure

The preceding section has described two trends in public reactions to early care and education – growing enthusiasm for funding that would make services much more available to families, and a growing movement to hold ECE programs accountable to defined standards. What are the implications of these trends for the ECE industry? One important question is: assuming that efforts to obtain increased public funding for ECE are successful, will the industry as a whole be ready to respond? Or will only a small number of providers – such as school districts or large child care chains – quickly dominate the industry?

[3] http://www.partnershipforsuccess.org/index.php?id=37&MenuSect=2

Similarly, how successful will the industry be in making the shift to an environment characterized by greater demand for program accountability and capacity to meet standards? There is broad consensus that these demands are important. But as noted, for providers, complying with increasing calls for accountability from multiple funders – especially when each funding stream has its own rules, standards, reporting requirements and monitoring – can be a major challenge. And as also noted, small programs with limited administrative capacity can find it difficult to focus consistently on improving quality.

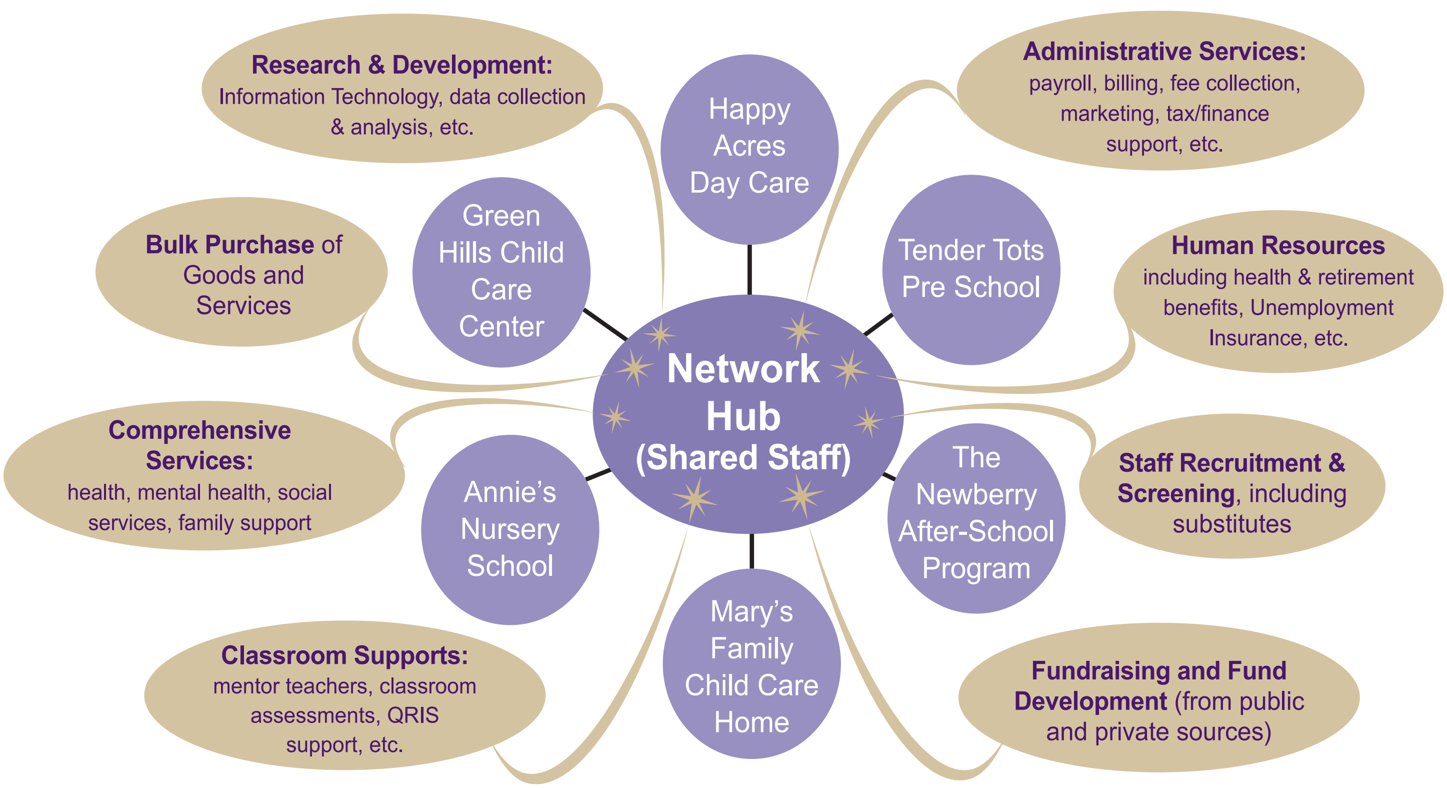
One issue to consider in answering questions about how well smaller providers can adapt to changing demands is whether more can be done to create the kind of infrastructure for the ECE industry that is available to most mainstream businesses in the U.S. The highly developed infrastructure for these businesses typically includes: common definitions and standards, rating systems, standardized procedures, industry-wide data bases, technology, and support services. Financial institutions, for example, share a very complex technology network (such as ATM machines) and rely on a host of industry standards that allow dollars to move easily among institutions. This shared infrastructure enables banks to operate quickly and efficiently.

In many sectors of the economy, organizations are able to grow because they invest significant sums (from internally generated revenues and profits) in research and development, early replication, and standardization. To grow, organizations typically need the capacity to take risks, respond quickly to proposals, test out new ideas, and try out cutting-edge services. Small unaffiliated organizations are typically not as well positioned to take these steps. An Aspen Institute analysis of scale and sustainability in the nonprofit field found that no field can go to scale without investing in and building appropriate infrastructure. "If achieving scale in the sense of reaching larger and larger numbers of people is truly our goal, our thinking must shift [from funding individual products or services]….to developing organizations and the industry…" (Ratliff and Moy, 2004) As discussed next, one of the key benefits of Shared Service Alliances is that they can offer ECE providers an infrastructure that they can rely on to meet the challenges of a changing field.

A Closer Look at Shared Service Alliances

How Alliances Work

The graphic, below, gives a picture of how Shared Service Alliances function: A member – which might be a child care center, a family child care home, a preschool or nursery school program, or an after-school program – draws on services that are provided by shared staff.



Alliances can consider offering many different kinds of services and supports to members. For example, these networks can:

- Bill and collect fees from parents on behalf of Alliance members (these efforts could include facilitating use of credit card or Electronic Funds Transfers).
- Raise and administer third-party funds for Alliance members from the public and private sectors; facilitate public-sector funding by helping members with paperwork needed to qualify for child care subsidies; manage a coordinated scholarship fund and/or other shared resources for families who are not eligible for public subsidy.
- Provide banking and financial assistance, including help with budgeting, taxes, and financial analysis.
- Market Alliance member programs to parents and manage enrollment to help members stay fully enrolled.
- Serve as a central human resource office, with the work including management of employee health, retirement and other benefits, unemployment compensation, and other personnel services.
- Recruit and screen staff, including teacher substitutes, for all Alliance members.
- Organize and coordinate joint purchases of goods and services among Alliance members.
- Provide comprehensive services such as health, mental health, and family support services to children and families enrolled in member programs.
- Offer classroom supports, such as mentor teachers, staff who perform classroom assessments, and staff who focus on quality assurance in member programs.
- Provide support and coordination for Quality Rating and Improvement Systems (QRIS), accreditation or other program quality improvement endeavors.
- Share support staff such as janitorial/maintenance and food services.
- Serve as an intermediary organization with regulatory agencies.
- Lead Alliance research and development efforts – for example, helping members adapt and use new information technology (IT) products; data collection, analysis and dissemination; and research on best practice and innovations aimed at improving quality and efficiency.

Most Alliances support the kind of shared services that have just been described with management fees paid by members augmented by third-party fundraising. The assumption is that the savings that providers realize through economies of scale, as well as the increased revenues that result from professional management staff and shared development, will equal or exceed the costs of the fees. Although Alliances are a recent innovation, early adopters have found this to be the case. Centers that

A Lexicon of Terminology Used in the Field to Describe Common Structures of Shared Service Alliances

Program Alliance: Independent ECE businesses contract with a common administrative agency for services.

Consortium: Existing ECE businesses join together as single nonprofit agency.

Provider Trust: ECE providers form and join a legal trust (structured as a limited liability corporation), which contracts with a third party to manage fiscal and administrative tasks.

Cooperative: ECE providers create a jointly owned entity that assumes responsibility for administration in multiple, independent sites.

participate in the Children's Home Alliance, for example, have found that a combination of savings and increased revenues cover management fees. And the home-based providers who participate in the IFDC Alliance in Virginia vote each year to allocate a portion of their fees to support the service – largely because they have found that the benefits outweigh the expense.

Different Origins and Arrangements

Most of the Alliances that have sprung up around the country are in relatively early stages of development. They offer a variety of services, use a variety of business models, and operate under diverse sponsoring agencies. Moreover, the paths to the formation of the Alliances have not all been the same.

Illustrating one kind of evolution for Alliances, the Children's Home, a large child development center that leads the Chattanooga Alliance, was already employing staff to manage money and support program quality for its own program when it started offering management services to the community-based programs that now belong to the Alliance. Creating the Alliance involved restructuring and expanding that staff to reach an additional 370 off-site children. In short, there was a natural economy of scale that made a shared services approach affordable and possible.

It is also possible for other kinds of organizations besides large centers to serve as hubs for Alliances. For example, Child Care Resources of Rockland, a Child Care Resource and Referral or CCR&R) agency, is sponsoring an Alliance pilot in New York State. And IFDC, in Fairfax Virginia, began as a traditional family child care networks and over time grew into an Alliance. Alternatively, ECE programs may decide to join forces and create their own collectively run shared service entity – which is what is happening in Seattle, Washington and the Seacoast region of New Hampshire. In general, the options for structuring Alliances can follow four different scenarios:

- An existing ECE business provides administrative support to providers.
- Several ECE businesses share duties, with each taking on the services it is best able to execute.
- A third party, such as a CCR&R, a family child care network, or another kind of nonprofit group, performs the service.
- Some combination of the above is used.

More on Where and How "Big" Matter

As noted, Alliances allow providers to continue some of their operations on a small scale – but at the same time to take advantage of the more centralized services and supports that are associated with belonging to a network. Specifically, an effective Shared Service Alliance can restructure management positions, and can gain the scale and garner the resources needed to enable centralized staff to focus on specific tasks. Fiscal staff can focus on billing for all sites. Mentors and supervisors can support staff in multiple settings. Likewise, all sites can be offered help with curriculum matters and with child assessments. Teachers can participate in role-alike training and support groups. And the scale of Alliances makes it more feasible for families to be offered bilingual services, mental health supports, developmental screenings, links to health insurance, and other family supports. In general, the benefits that come from the scale at which Alliances operate include the following (Stoney, 2004):

- *The professional fiscal management and economic strength of a larger organization,* making it easier for very small businesses to weather economic ebbs and flows.

- *Lower costs from economies of scale in business functions* like payroll, benefits management, banking, janitorial and food services, and purchasing.
- *Higher quality early childhood education, and the ability to offer a range of comprehensive family support services,* due to a more stable financial and organizational structure, improved compensation, and a comprehensive approach to professional development.
- *More reflective teaching practices* as a result of a better capacity to conduct child assessments and track outcomes using a centralized data system.
- *Better capacity to link with school districts and support successful transitions to school* through the use of shared technology and centralized data systems.

Results: Shared Services Help Improve Quality and Management

Early experience with shared service business models demonstrates that by forging Alliances, ECE programs can be financially and programmatically stronger, making it more possible to offer affordable, high-quality services in a range of settings for children of all ages.

One striking example of how an Alliance can raise quality comes from the Chattanooga network. It includes five community-based child care programs that before joining the Alliance were struggling financially and unable to provide high-quality services. Today the centers are not only offering top-quality early learning but are also able to help link many low-income children and families they serve to comprehensive health, mental health, and social services. Any developmental delays of children are identified and addressed at an early stage, and as a result, 97 percent of children in the shared-services programs are developmentally ready when they enter kindergarten. Staff wages have risen in centers affiliated with the Alliance and all staff members now have fully paid health and dental coverage, a pension plan, a host of other employee benefits, and career opportunities that were previously unavailable to them. Over time the Children's Home further extended its management services to include sites in five local elementary schools.[4]

The IFDC Alliance of home-based providers in Fairfax, Virginia, has also had strong results This Alliance includes approximately 130 family child care providers, most of whom speak a primary language other than English. Member providers earn higher wages than their non-affiliated peers because they have a steady income; as noted, the Alliance manages fee collection and helps providers maintain full enrollments. The Alliance has strong professional development standards and has developed specialized training and internship opportunities for non-English-speaking providers. As noted, members of the Alliance stay in the field for a significantly longer time than the national average. The Alliance also offers services for parents, including access to support groups, parenting education, and substitute care if a family's provider is ill (Stoney, 2004).[5]

[4] For more information on the Children's Home Alliance, go to http://www.earlylearningventures.org

[5] For more information on the Infant Toddler Family Day Care Alliance, go to http://www.earlylearningventures.org

Ninety-seven percent of the children who attend centers that participate in Chattanooga's Children's Home Shared Service Alliance are developmentally ready when they enter kindergarten.

One of the hallmarks of the work of Seattle's Sound Care Solutions Alliance is that site directors work as a team committed to focusing on high-quality services. The anti-bias curriculum that Alliance members use is part of this focus. Another important commitment of this Alliance is to collectively meet needs of low-income children. Some centers in the Alliance serve many low-income families, while others serve very few, but the Alliance as a whole has established a pooled scholarship fund that augments public and private subsidies.[6]

Merage Foundation Leads Shared Services Movement in Colorado

In Colorado, Early Learning Ventures™ (ELV), a new nonprofit organization established by the David and Laura Merage Foundation, is creating and supporting ELV Alliances – community-based partnerships that will each involve approximately 100 child care businesses, including family child care providers, faith-based centers, and other small providers. Through these regional ELV Alliances families will get access, either on site or through referrals, to a wide variety of family supports and services – for example, health and mental health screenings and early intervention services. Other important elements of the ELV Alliance initiative are: involving all members in continuous quality improvement efforts through Qualistar, the state's QRIS system; offering members business consultations and other kinds of start-up assistance; and a centralized web system that facilitates activities such as online enrollment, bookkeeping, marketing, and service referrals. ELV Alliances will also focus on policy and finance-reform efforts to increase families' access to high-quality ECE services. The goal of Early Learning Ventures is to launch 25-30 Alliances in Colorado in the next five years.

To improve efficiency, Alliances are also developing new management tools. These include new information technology products to support fiscal and management tasks and better data collection systems to guide providers' marketing and enrollment. Additionally, on a local level there are examples of leaders of Alliances joining forces with other industries to develop new tools that promote economies of scale. For example, the David and Laura Merage Foundation, through their Early Learning Ventures initiative, is working with shared service providers in other business sectors to develop supports for ECE businesses. Central to this work is a shared-services IT system that uses a web-based platform to integrate key business operations and service delivery tools for providers who are members of an Alliance. This customized application will enable users to perform online enrollments and referrals, and to manage registration, waitlists, child care placements, and family and child enrollment data. The platform will also include applications tailored to the ECE sector that will facilitate cost savings. For example, group purchasing will be negotiated with vendors and then ECE providers will be able to make online purchases that can be delivered to family day care homes and centers. Other applications will facilitate marketing and carrying out human resources functions.

Funding and Support for Alliances and the Shared Services Movement

Philanthropic Leadership

Philanthropic leadership and private sector support have been instrumental to the ECE shared services movement. The United Way of Chattanooga initiated the Children's Home Alliance, and local United Way agencies provided seed funding for Alliances in Columbus, Ohio and in Des Moines, Iowa. In 2008, the Annie E. Casey Foundation and the David and Laura Merage Foundation joined forces to deepen research on shared services and to launch a National Shared Services Learning Community that includes a national conference for early adopters of the approach. Both foundations have also invested start-up funds for new Alliances

[6] For more information on Sound Child Care Solutions, go to http://www.earlylearningventures.org

in Colorado (Merage), Baltimore and Atlanta (Casey). (See textbox for more information on the Merage Foundation's approach to shared services in Colorado.) In 2009, the William Penn Foundation and the Mimi and Peter Haas Fund came on board with support for Alliances in Philadelphia and San Francisco. And a growing number of local United Way agencies and community foundations are key funding partners in many states and cities across the country.

Start-Up Funding

Securing venture capital is an essential first step to establishing an Alliance. Start-up funds help to underwrite the initial cost of planning, technology, developing and staffing back-office operations, and other activities. While most start-up funding has come from the private sector, several new Alliances have been able to secure start-up funding from public sources, including the Child Care and Development Fund (CCDF) quality set aside funds, the Temporary Assistance for Needy Families (TANF) public assistance program, and community development funding sources.

Sustainability

Start-funding is critical, but how can Alliance expenses be supported in the long run – after this funding ends? An Alliance's long-term success depends, in large measure, on its ability to tap into and manage multiple public and private funding streams. For example, in addition to United Way scholarship dollars, the Children's Home Alliance receives funding from Head Start, Early Head Start, state child care subsides, the school district, county government, and local churches, and it is supported by parent fees and other dollars secured through private fundraising. All of these funds – combined – make it possible to offer affordable, high-quality services in a range of settings.

As shown by the Children's Home example, shared service staff who work on development have a number of avenues that they can pursue in seeking out support for sustainable Alliances. For example, several federal funding streams offer opportunities to support shared services. These include the Child Care and Development Block Grant, the TANF funding stream, Head Start and Early Head Start, stimulus dollars available through the American Recovery and Reinvestment Act of 2009 (ARRA), and the newly proposed Early Learning Challenge Grants. Dollars from other, more generic sources – including the community and economic development and small business administration funding streams – can also be tapped.

Experience to date suggests that besides a diverse funding base, there are two other key ingredients of a sustainable Service Alliance: 1) skilled management and fiscal staff, and 2) participating members (centers or homes) that are willing and able to pay management fees.

Management Fees

Centers typically find the funds needed to pay a management fee with cost savings that come from: collective purchase of goods and services (which helps lower OTPS costs) and from restructuring their staffing patterns or reducing/realigning central management functions (which helps lower personnel costs.)

Budget for Small Center: 20 Full-Time Children

Expenses

	Before Alliance	After Alliance
Teaching Staff	$92,000	$92,000
Administration Staff	$45,000	$11,000
Food & Supplies	$13,500	$12,000
Accounting / Legal / Insurance	$3,500	$0
Other Operations	$5,000	$4,000
Professional Development	$2,000	$0
Totals	$161,000	$119,000

Savings to Center: $42,000

Revenues

Revenues for this center increased by $20,000 in the first year, due to improved fiscal management and full enrollment.

Thus, a total of $62,000 is now available to support shared administration and/or to invest in quality improvements in the center.

In many cases, joining an Alliance also increases revenue for the center (because enrollment and fee collection rates rise due to improved fiscal management). A combination of cost savings and new revenues not only enables participating centers to pay a management fee but can also help generate funds to increase staff wages and benefits. The sample budget (left) shows how joining an Alliance can free up a site's administrative dollars – a step that can not only help a center purchase management and support services from a central hub but that can at the same time increase wages and benefits for teachers and other program staff.

The information in the box below illustrates how site staffing patterns might change as a result of joining an Alliance. This 20-child program, which formerly had a full-time director, now has a part-time director and a supervising teacher. The individual who formerly served as full-time director for one small center is now part of a management team. She may be physically located at the 20-child site (an arrangement that helps the center meet licensing requirements), but her management responsibilities are spread across multiple small ECE programs. It should be noted that by giving the director this new position, the Alliance has in essence created a new step on a career ladder.

The financial benefit of joining an Alliance is somewhat different in the case of family child care homes. These providers cannot restructure management – since they didn't have it to begin with – so they must build the management fee into their budgets. However, most home-based providers find that when an Alliance hub recruits families and collects fees for them, their overall revenues increase. Thus, start-up funds can be used to prime the fiscal management pump, and the improved revenues that result can cover the cost of basic management fees.

Staffing Changes in Small Center: 20 Full-Time Children

Before Alliance
Full-Time Director
Two Lead Teachers
Four Assistant Teachers (Some Part-Time)

After Alliance
Part-Time Director* (On-Site 25% of Time)
One Supervising Teacher
One Lead Teacher
Four Assistant Teachers (Some Part-Time)

*Director spends remaining 75% of time at central office, on administrative tasks supporting ALL sites in the Alliance, including this one.

Management fees are an essential revenue source for an ECE Shared Service Alliance. Full enrollment and prompt collection of tuition and of subsidies in lieu of tuition are key to ensuring that the providers can afford the management fees and that the Alliance, in turn, has the ongoing revenues it needs to succeed.

However, it should not be assumed that the management fees that are facilitated by tuitions and subsidies are the only source of income for either the Alliance itself or for the ongoing work of its member providers. In many cases tuition alone is insufficient to cover provider costs – either because public reimbursement rates are too low or families cannot afford to pay the full cost of care. This is especially true for ECE programs that seek to provide high-quality services – notably, regular child assessments; deep and ongoing supports to ensure that teachers are engaged in reflective practice and are using curricula in ways that strengthen early learning; and comprehensive health, mental health, and social services. For Alliances to be sustainable and to do the work needed to assist member providers in their efforts to maintain and raise quality, these networks will typically need shared staff who are skilled in raising third-party funding on a consistent basis. Indeed, ongoing fund development for the Alliance should be viewed as a core service. The need for continued third-party funding to augment parent fees and child care reimbursement rates should not be viewed as an indication that an Alliance is not sustainable. Indeed, nearly every high-quality ECE program in the U.S. must continuously generate funds. Rather, the ability to raise these funds – year in and year out – is a sign that the Alliance is sustainable. A sustainable entity is strong enough to weather ebbs and flows in funding, to tap a new funding stream when and older one has begun to weaken, to look ahead and new trends, to stay on top of Requests for Proposals, and to be willing and able to step up to the plate when new funding opportunities arise.

Excerpt from Shared Services Initiative Theory of Change – Logic Model

Indicators that a shared service alliance is a stable business, with a long-term sustainable funding strategy, and effective in improving quality and stability of its member ECE businesses include the following:

- The Alliance has a high level of recognition in the ECE market place, including positive relationships with providers and funders.
- The Alliance has effective policies, procedures and processes in place to ensure the delivery of stable, consistently high-quality ECE in the center – and home-based providers that comprise the Alliance network.
- Data are available to demonstrate that the Alliance is effective and is producing consumer satisfaction.
- The Alliance has the financial resources required to weather changes in funding and utilization, and a long-term, sustainable funding strategy.

Shared Services and Public Policy

The Annie E. Casey and David and Laura Merage Foundations have developed a logic model for Shared Services. A logic model is a schematic representation of the goals of a project or initiative and what it takes to achieve that goal. (See textbox, left.) The logic model that was developed by the two foundations is based on an important assumption – that the shared-service innovation is one part of a complex ECE system. Shared services alone cannot ensure that children receive the early learning opportunities they need to succeed in school and life, nor can it significantly reform the ECE industry. Success is dependent upon a host of conditions and changes – within government as well as within the ECE industry itself. These conditions and changes include:

- Public support for comprehensive interventions aimed at strengthening families and communities – interventions that improve families' health, mental health, and social and economic supports.
- Both third-party funders and consumers that value and that can identify high-quality early care and education.
- Public and private third-party funding streams for ECE that are aligned (for example, funding streams with common standards, policies, and procedures) so that multiple funding sources can support a single, high-quality program that ensures continuity of care, effective early learning, and strong transitions to school.
- Increased public investment in ECE, or at minimum, investment which remains stable enough to ensure that resources are available in high-needs communities.
- A desire and a will to change ECE management structures and approaches among the ECE programs that participate in an Alliance.

The Quality Rating and Improvement Systems (QRIS) that now operate in 20 states and that are being planned or piloted in all other states offer a concrete way to achieve two of the conditions just listed – identifying high-quality ECE and aligning funding streams. To be effective, a Shared Service Alliance must ensure that its center – and home-based affiliates meet quality standards – and increasingly Alliances are adopting QRIS as their standard of quality.

The use of QRIS within the shared-services movement has several benefits: It adds to other, complementary efforts to help consumers and funders identify high-quality care, and it means that there is a fit between Alliance and broader state definitions of quality. Moreover, as states recognize that QRIS is not only a set of quality standards but a tool for system alignment, they are increasingly using QRIS as a framework for coordinated accountability, finance, monitoring, consumer engagement, and planning of ECE services – and Alliances' use of QRIS helps states build that framework. At the same time, planners interested in developing ECE shared-service systems should recognize that strong public support for a QRIS creates fertile ground for an ECE Shared Service Alliance.

In tandem, QRIS and Shared Service Alliances can open up new approaches to finance and accountability. For example, centers or homes might collectively hire the support staff or degreed teachers they need to attain higher star levels in the QRIS ratings. QRIS technical assistance and professional development supports are more cost-effective when delivered within a shared-services structure that promotes consistent, on-site supervision and follow-through. Shared services also offers new opportunities to revise rate setting, so that public reimbursement is based on the kind of reliable and valid cost data linked to quality measures that Alliances are in a strong position to generate – rather than on market prices that do not consistently correlate with cost or quality. The administrative efficiencies of a Shared Service Alliance also extend to fund development; instead of submissions of multiple, competing funding requests from disparate providers, an Alliance makes it possible for a group of providers to collectively bid on a state contract or private sector initiative.

Setting a New Course for ECE

America is facing tough economic times. Jobs, incomes, and investment revenues are shrinking; businesses and families across the U.S. are finding it necessary to do more with less. President Obama has challenged Americans to chart a new course. He has made funding available to help stimulate investment and has encouraged policymakers and citizens across the nation to explore new approaches to meeting our most urgent challenges. He has encouraged the energy industry to use this opportunity to increase investments in solar, wind, and clean coal technology;

he has encouraged the automobile industry to invest in hybrid and electric cars; he is promoting innovation in health care and public education.

Like other sectors of the economy, the ECE industry needs to rise to the challenge of charting a new course by exploring and investing in new approaches to service delivery, management and administration. Shared services can be a win-win for providers, funders, philanthropists, families, and government. Countless other industries have harnessed the power of shared services and crafted new industry alliances. It's time for the ECE industry to do the same and envision new possibilities.

Additionally, as stressed earlier, it is important that government acknowledge the crucial role that private markets play in the provision of early care and education. Indeed, most ECE programs in the U.S. derive the bulk of their revenues from consumer tuition; government funding is a supplement but not the primary source of revenue. Thus, it is essential that government think more strategically about crafting policy and finance strategies that acknowledge, and effectively build on, market principles so that high-quality early care and education services are available, accessible, and affordable for all America's children and families.

About the Author

Louise Stoney is an independent consultant specializing in child care and early childhood education policy, co-founder of the Alliance for Early Childhood Finance and a principal investigator of the Linking Economic Development and Child Care project. She has worked in public policy for more than thirty years, including positions as a staff member in the New York State legislature, policy director for a state child care resource and referral network, and instructor for the Center for Women in Government at the State University of New York at Albany. Louise has written extensively. With Anne Mitchell, she co-authored *Financing Child Care in The United States: An Expanded Catalog of Current Strategies, Smarter Reform: Moving Beyond Single Program Solutions to an Early Care and Education System* for the Journal of Community Development Society; *Tax Credits to Promote High Quality Early Care and Education Services* for the Partnership for America's Economic Success, and several reports on financing child care quality rating systems, including a 2009 issue brief *Maximizing Resources from the Stimulus Package: Possible Strategies for Funding Quality Rating and Improvement Systems.* Over the past few years Louise has worked with the David and Laura Merage Foundation, the Annie E. Casey Foundation, and the William Penn Foundation on shared services. Recently, she authored *Shared Services: A Powerful Strategy to Support Sustainability of ECE Businesses* for the September, 2009 issue of Child Care Information Exchange as well as a report entitled *Collective Management of Early Childhood Programs: Approaches That Aim to Maximize Efficiency, Help Improve Quality and Stabilize the Industry.* Many of Louise's publications may be found at www.earlychildhoodfinance.org.

Resources

Ahnert, P. & L. (2006) Security of children's relationships with non-parental care providers: a meta-analysis. Child development 2006;77(3):664-79.

Barnett, S. et al. NIEER State of Preschool 2008. National Institute for Early Education Research. www.nieer.org

Barnett, W.S. & D.J. Ackerman. (2006). Costs, Benefits and the Long-Term Effects of Preschool Programs, Community Development: Journal of the Community Development Society, 37 (2).

Birch & Ladd (1998). Children's interpersonal behaviors and the teacher-child relationship. Developmental psychology. 34.(5), 934-946.

Casper, L.M. & O'Connell, M. (1998). Work, Income, the Economy, and Married Fathers as Child-Care Providers. Demography 35:243-50.

Center for the Child Care Workforce. (May, 2002). Estimating the Size and Components of the U.S. Child Care Workforce and Caregiving Population. Early Childhood Development. Washington, DC: National Academy Press. http://www.nap.edu/openbook.php?isbn=0309069882

Gilliam, W. & E. Zigler (2004). State Efforts to Evaluate the Effects of Prekindergarten: 1977 to 2003. New Haven: Yale University Child Study Center.

Heckman, J.L., & D. Masterov. 2004. The productivity argument for investing in young children. Working Paper No. 5, Invest in Kids Working Group, October 2004.

Helburn, S., & B. Bergmann. 2002. America's Childcare Problem: The Way Out. New York: Palagrave.

Howes, C. & E.M. Shivers. (2006) New child-caregiver attachment relationships: Entering child care when the caregiver is and is not an ethnic match. Social Development, 15, 343-360.

Howes, C. (1999/2008). Attachment relationships in the context of multiple caregivers. In J. Cassidy & P.R. Shaver (Eds.), Handbook of attachment: Theory, research, and clinical applications (pp. 671-687). New York: The Guilford Press.

Howes, C., J. James, & S. Ritchie. (2003). Pathways to Effective Teaching. *Early Childhood Research Quarterly* 18 (2003) 104–120

Kontos, S., C. Howes, M. Shinn, & E. Galinsky. (1995). Quality in family child care and relative care. New York: Teachers College Press. ED 390 536.

Lynch, R. (2004). Exceptional Returns: Economic, Fiscal, and Social Benefits of Investments in Early Childhood Development. Washington, D.C.: Economic Policy Institute.

Lynch, R. (2007). Enriching Children, Enriching the Nation: Public Investment in High-Quality Prekindergarten. Washington, DC: Economic Policy Institute.

Mitchell, A., L. Stoney, & H. Dichter. (2001). Financing Child Care in the United States: An Expanded Catalog of Current Strategies 2000 Edition, Kansas City: The Ewing and Marion Kauffman Foundation. National Association for Regulatory Administration and the National Child Care Information and Technical Assistance Center, 2006

NICHD Early Child Care Research Network (2005). Characteristics and quality of child care for toddlers and preschoolers. Applied Developmental Sciences. 4:116-135.

Ostrosky, M. & E. Jung. (2007). Brief #12: Building Positive Teacher-Child Relationships. Center on the Social and Emotional Foundations of Early Learning http://www.vanderbilt.edu/csefel/briefs/wwb12.html

Owen, M. T., A. M. Ware, & B. Barfoot. (2000). Caregiver-mother partnership behavior and the quality of caregiver-child and mother-child interactions. Early Childhood Research Quarterly, 15, 413-428.

Peisner-Feinberg, E. S., M. R. Burchinal, R. M. Clifford, M. L. Culkin, C. Howes, S. L. Kagan, & N. Yazejian. The relation of preschool child care quality to children's cognitive and social developmental trajectories through second grade. Child development 2001; 72(5):1534-53.

Pew Center on the States. (May 2009). Leadership Matters: Governors' Pre-K Proposals Fiscal Year 2010 http://www.preknow.org/documents/LeadershipReport_May2009.pdf

Pratt, J. & Kay, D. (2006). Beyond Looking Backward: Is Child Care a Key Economic Sector? Community Development: Journal of the Community Development Society, 37(2).

Ratliff, G. & K. Moy. (2004). New Pathways to Scale for Community Development Finance., Profitwise News and Views, Federal Reserve Bank of Chicago Consumer and Community Affairs Division.

Rolnick, A., & R. Grunewald. (December 2003). Early childhood development: Economic development with a high public return. Fedgazette. http://www.minneapolisfed.org/pubs/fedgaz/03-03/earlychild.cfm

Shared Services. 170 Systems. http://www.170systems.com/files/170_Systems_Shared Services_wp-040207.pdf

Shared Services: A SAP White Paper http://www.sap.com/solutions/business-suite/erp/pdf/BWP_WP_ Shared_Services.pdf

Shonkoff & Phillips (2000). From Neurons to Neighborhoods: The Science of State Higher Education Finance, 2008 http://www.sheeo.org/finance/shef/SHEF%20FY08%20Early%20 Release%202.pdf

Stimolo, B. (2006). From the Marketing Side: Growth Forecast For The Pre-K Market NSSEA ESSENTIALS , Nov/Dec 2006. http://www.nssea.org/kbdatabase/Trends%20&%20Forecasts/ Growth%20Forecast%20for%20the%20Pre-K%20Market%20 -%20ND06.pdf

Stoney, L. (1994). Promoting Access and Quality: Critical Steps in Conducting Child Care Market Rate Surveys and Establishing Rate Polices. Washington, DC: Children's Defense Fund.

Stoney, L. (2004). Collective Management of Early Childhood Programs: Approaches That Aim to Maximize Efficiency, Help Improve Quality and Stabilize the Industry. Raleigh, NC: Smart Start National Technical Assistance Center & Cornell University Linking Economic Development and Child Care Research Project.

Stoney, L. & A. Mitchell. (2007). Using Tax Credits to Promote High Quality Early Care and Education Services Washington, DC: Partnership for America's Economic Success. http://www.partnershipforsuccess.org/uploads/200712_ StoneyMitchellpaper.pdf

Stoney, Mitchell, & Warner (2006). Smarter Reform: Moving Beyond Single Program Solutions to an Early Care and Education System, Community Development: Journal of the Community Development Society, 37(2).

Vandell, D.L., & B. Wolfe. (2002). Child care Quality: Does it Matter and Does It Need to be Improved? Madison: Institute for Research on Poverty, University of Wisconsin-Madison.

Warner, M., S. Adriance, N. Barai, J. Halla., B. Markeson, & W. Soref. (2004). Economic Development Strategies to Promote Quality Child Care, Ithaca, NY : Cornell University Department of City and Regional Planning.

Warner, M. (2006). Putting Child Care in the Regional Economy: Empirical and Conceptual Challenges Raised by Regional Economic Impact Studies, Community Development 37 (2):

This publication is a product of Early Learning Ventures, an initiative that focuses on the challenges faced by the sector of the U.S. economy that delivers early care and education services to families. Leveraging the organizational capacity of the David and Laura Merage Foundation, Early Learning Ventures works to develop innovative partnerships that aim to accelerate improvements in the quality of early care and education services, promote the effective operations of these services, and build momentum for broader industry reform.

DAVID & LAURA
MERAGE
FOUNDATION

Sue Renner
Foundation Director
srenner@merage.org

Lindsay Dolce
Early Learning Ventures
Project Manager
ldolce@merage.org

Judy Williams
ELV Alliance
Project Manager
jwilliams@merage.org

6400 S. Fiddler's Green Circle, Suite 2000
Greenwood Village, CO 80111
Telephone (303) 789-2664 x218
Facsimile (303) 789-2696

WWW.EARLYLEARNINGVENTURES.ORG

EARLY LEARNING Ventures