

ECONOMIES OF SCALE: MULTI-SITE CENTER-BASED APPROACHES

**Are there innovative ways to reach economies of scale?
What have we learned about this approach in general
as it relates to multi-site, center-based approaches?**

Background

A major barrier to financing early care and education programs is the fragile nature of the industry and the absence of economies of scale. Early childhood programs--unlike their counterparts in most other industries--tend to be very small. And very small businesses rarely have the financial stability and fiscal expertise necessary to take advantage of new, innovative financing strategies. Because of their size, early childhood programs find it difficult to weather bad economic times (when enrollment might be down), take financial risks (such as borrowing money to grow), or try new educational approaches or service delivery strategies (because they don't have enough qualified staff to do so.)

While the average child care center serves approximately 70 children, it is not uncommon to find centers that enroll only 30 or 40. This is in stark contrast to other fields, such as elementary and secondary education, higher education, subsidized housing, agriculture (which uses a cooperative strategy to support farms), and many other sectors that have established a large administrative infrastructure that can provide stability and help the field benefit from economies of scale.

There are, potentially, a number of ways that early childhood programs can join forces to stabilize the industry and obtain economies of scale. Smart Start's National Technical Assistance Center and the Cornell University Linking Child Care and Economic Development Project recently commissioned a study that examines various approaches that early care and education businesses currently use to help stabilize the industry. The report, *Are There Economies of Scales in Early Childhood Program Management? Approaches to Early Childhood Program Administration and Finance That Maximize Efficiency, Help Improve Quality, and Stabilize the Industry*, identified two approaches that bring small child care centers together under a single management umbrella. These are:

Multi-Site Early Care and Education Corporations-- In this model, all of the center-based sites are typically operated by a single corporate entity. Sometimes the program also operates a family child care network. Network homes are typically independent businesses with the sponsoring entity providing fiscal/administrative and other support services. The report profiled seven initiatives of this type, six non-profit and one proprietary.

Early Care and Education Program Alliances – In this model, participating centers have varying degrees of independence, but share all or some management functions. The report profiled three initiatives of this type, one non-profit, one proprietary, and one with both non-profit and proprietary divisions.

The models cited above represent current practice in early care and education. They are not, however, the only or best answer. This discussion group will focus on lessons learned from current practice as well as potential next steps.

Discussion Questions

- 1) What works best about the multi-site, center-based approaches currently used by the field of early care and education? What doesn't work as well? How can we capitalize on strengths and minimize weaknesses?
- 2) All of the programs/alliances profiled in the report were started from the top down. (In other words, a lead agency -- often a large child care center -- put the initiative together and then brought in smaller centers.) Is this approach to leadership essential? Or is it possible to establish a multi-site early care and education corporation or alliance from the ground up -- as a grass roots effort forged by participating programs?
- 3) The greatest financial gains from shared management strategies appear to occur in situations where administrative staff positions are reduced or streamlined (for example, some do not have a full-time director at each site.) This means that classroom teachers assume a stronger leadership role. How can the field best prepare and support current and prospective teachers for this new role? What policy and program changes are needed to make this approach work effectively? Will it be necessary to revise the training, education, and experience required of classroom teachers? Will it require changes in child care regulations?
- 4) What new financing strategies are needed to support multi-site early care and education corporations and provider alliances? Are there new industry-wide investment approaches we should explore? The corporations and alliances profiled in the research received grants from philanthropy and government -- in addition to their fees and public reimbursement rates -- to support a host of quality improvement efforts. (Quality improvement initiatives include staff training and education, regular classroom observations, conducting child assessments, and providing support services for children and families -- such as nurses, psychologists, family service workers, and so forth.) But most funding is short-term and targeted to specific populations or initiatives. Rarely are grants crafted in a way that supports long-term investments in strengthening the early care and education industry as a whole. How can we effectively address the mismatch between the needs of these programs/alliances and the needs of funders?
- 5) Does the field of early care and education need to nurture a new approach to leadership? And if so, what are key next steps? In an early care and education program, leadership involves a careful balance between professional management skills (a focus on the bottom line) and a deep understanding of child development. Is it possible to find -- or nurture -- these skills in the same person? Or do we need to think about building cross-sector leadership teams? Are the cost savings and increased stability gained by multi-site approaches worth the work? Would it be more productive to focus on building more large-scale programs that bring several hundred children to a single site, which is the approach used by elementary and secondary education?

Suggested Resources

Stoney, Louise (2004)

Are There Economies of Scales in Early Childhood Program Management? Approaches to Early Childhood Program Administration and Finance That Maximize Efficiency, Help Improve Quality, and Stabilize the Industry. Smart Start's National Technical Assistance Center. www.earlychildhoodfinance.org
(See profiles of multi-site early care and education corporations and early care and education program alliances.)