

**Business Practices of Minnesota Child Care Centers:  
A Survey Report**



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## INTRODUCTION

DCC understands that child care is a market-based service business like health care and legal services. DCC believes that quality business practices and quality program services are inextricably connected. Standards that measure quality business practices provide information about the quality of the program services and vice versa.

As Minnesota gears up to develop a quality rating system for the child care and early education industry, DCC finds it useful to analyze the business practices used by child care centers in the context of established benchmarks of quality.

This report provides that analysis based on our October 2004 survey of Minnesota child care centers' business practices.

The Business Practices and Financial Health Survey was a mailed survey addressed to directors of child care centers. The sample consisted of 250 randomly selected child care centers in Minnesota offering full-day programs. They were chosen from a list of open centers as of June 2004. The list was provided by the Minnesota Child Care Resource and Referral Network.

Type of Center	Surveys Received
Non-profit	38
For-profit	27
Church Based	11
School Based	2
Other	1
Total	79

*Due to sampling methods, the interpretation of survey responses should be applied only to respondents and should not be generalized to the total population of centers in Minnesota.*

This is the first known attempt to present the business practices of child care providers to a public audience. This survey also further supports DCC's extensive anecdotal evidence regarding the tendency of child care centers to use particular business practices. Other studies have investigated the relationship between staff education and program outcomes,<sup>1</sup> and have shown that the quality of staff training in early care and education programs is critical to determining overall program quality.<sup>2</sup> Additional research has shown that professional management and leadership training for center directors increases the quality of care their centers provide.<sup>3</sup>

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<sup>1</sup> Jorde-Bloom, 1989; Whitebook et al., 1989

<sup>2</sup> Arnett, 1989; Berk, 1985; Clarke-Stewart & Gruber, 1984; Howes, 1983; Jorde-Bloom, 1989c; Oyemade & Chargois, 1977; Ruopp, Travers, Glantz, & Cohen, 1979; Vandell & Powers, 1983; Whitebook, Howes, & Phillips, 1989

<sup>3</sup> Jorde-Bloom & Sheerer, 1992

This report compares survey results to four different models for measuring quality of child care and early education that have been established through research, practice or both: the Professional Administration Scale (**PAS**)<sup>4</sup>, the National Association for the Education of Young Children (**NAEYC**)<sup>5</sup> accreditation, and the First Children’s Finance (**FCF**) loan application process<sup>6</sup>. We have also compared our results to the Minnesota Core Competencies for Early Childhood Education and Care Practitioners (**Minnesota Core Competencies**)<sup>7</sup> where appropriate.

Each model includes different business practice indicators. This report focuses on the indicators that are common to the survey and the models. The indicators held in common fall into five categories:

1. Strategic planning
2. Financial management
3. Marketing
4. Staff Qualifications and Development
5. Professional Organizations and Outreach

### **Major Themes**

Overall, centers used business tools for the moment rather than for the future, suggesting that centers had more business techniques than they had business systems.

Staff development is an important and accepted indicator of program quality and demonstrates that there is an asset base for further learning in quality business practices. Our survey also indicates that our respondents had a high level of staff development, in terms of both education and experience, and ranked well in these categories of quality indicators.

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<sup>4</sup> The **PAS** is a rating system that measures early childhood leadership and management. It was developed at the National-Louis University Center for Early Childhood Leadership. This standard has four levels; Inadequate, Minimal, Good and Excellent.

<sup>5</sup> **NAEYC**’s nationally recognized accreditation process was used for specific references to business and management tools. All references are made to April 2005 edition of performance criteria.

<sup>6</sup> The **FCF loan application process** is required for all DCC loan applicants and is based on DCC’s Business Standards for Quality Child Care.

<sup>7</sup> The **Minnesota Core Competencies for Early Childhood Education and Care Practitioners** define the knowledge and experience necessary for practitioners to provide quality education and care. (All references are made to the First Edition, September 2004)

## FINDINGS AND ANALYSIS

### 1. Strategic Planning

Having a plan for an organization allows center leaders to make educated appraisals of both future needs and the resources required to meet those needs. Our survey shows that nearly half (48%) of all respondents never established a formal strategic plan. If they have a strategic plan it might not be up to date. In all, 31% of respondents completed their strategic plan within the last five years. A total of 19% of all respondents reviewed their plans annually. Regionally, rural centers (36%) were half as likely as urban centers (68%) to have completed this type of planning.

In comparing these results with standard measures, we found that:

- The PAS considers the existence of a business or strategic plan to be necessary to meet the ‘minimum’ quality standard for a child care center. Centers meeting the ‘good’ quality standard will engage their staff and/or board in writing such a plan, while centers meeting the ‘excellent’ quality standard will also have their staff and/or board review this plan annually.
- NAEYC requires that a center have a strategic planning process that describes how they will implement their vision/mission, achieve educational outcomes, maintain high quality, and provide long-term resources.
- First Children’s Finance requires the completion of a business plan as a part of the loan application process.

In all, nearly half of our respondents did not practice ‘minimum’ standards of quality for business and strategic planning as defined by all three organizations.

### 2. Financial Management

Overall, one-third of centers surveyed felt both stable and financially secure. That is compared to nearly half (48%) who identified themselves as *either* stable or financially secure. Nearly one in five centers surveyed (19%) was in financial trouble or did not know their financial situation. Of all our respondents, 44% had a 30-day operating reserve.

Financial tools are the techniques used to track the center’s financial condition. Such tools include cash flow projections, income and expense reports, forecasting, audits and reviews.

#### *Cash Flow Projections*

Our survey found that 30% of centers produced cash flow statements. There is a great disparity between urban centers, 40% of which produced cash flow statements, and rural centers, 4% of which produced them.

- In PAS, a cash flow statement indicates that a center meets the ‘excellent’ quality standard; it is one of six measures of quality in their Fiscal Management category.
- NAEYC does not specifically require cash flow statements for accreditation. (See Forecasting section for further forecasting requirements.)
- Cash flow statements are a required part of the FCF loan application process.

### *Income / Expense Report*

Nearly all respondents (92%) produced an annual income/expense report, and most (75%) produced a monthly report. Only 3% of centers never produced such a report. Of the 92% that produced income/expense reports on an annual basis, they were more likely to be older centers than newer centers (Figure 1).

<b>Center Age</b>	<b>Annual Income/Expense Report</b>
Less than 4 Years Old	69%
Between 4 and 22 Years Old	100%
Older that 22 Years	83%

- Income/Expense reports are another one of the six measures of quality under PAS’s Fiscal Management category. These reports are required to be produced on a quarterly basis for a center to receive a ‘minimal’ quality ranking. Higher rankings require the center to grant the director access to these reports (‘good’ quality) and a center meeting the criteria for ‘excellent’ quality is one in which the director uses the information in the Income/Expense report for decision making. By these measures, 75% of Minnesota centers meet, at least, the ‘minimal’ quality ranking.
- NAEYC does not specifically require income/expense reports for accreditation. (See Forecasting section for further forecasting requirements.)
- Monthly or Quarterly balance sheets and income statements are a requirement in the FCF loan application process.

### *Forecasting*

We found that 40% of all surveyed centers produced an annual forecast of financial activities. Of these centers, 99% of them itemized their expenses. Itemizing expenses helps directors anticipate future needs.

- This is another of the six measures of quality Fiscal Management in the PAS scale. To meet the ‘minimum’ quality standard, centers must produce a current budget. To achieve a ‘good’ ranking, centers will itemize this budget, as most respondents do. A center meeting the ‘excellent’ quality standard will have a projected budget available for the next fiscal year by the end of the current fiscal year.
- NAEYC requires that center directors participate in long-term financial planning which could include annual forecasts.
- FCF’s loan application process requires that centers forecast the next year’s budget.

### *Financial Audits and Reviews*

In Minnesota, independent financial audits are required of non-church-based nonprofits with over \$350,000 in annual revenue. If an audit is not required, a ‘good’ practice is an independent financial review. We asked respondents if they had recently conducted either an audit or a financial review. We found that less than half of all surveyed centers (49%) had an audit or a financial review either annually or within the last three years. In addition, 31% of center directors were unsure of the center’s auditing and review practices or knew that the center had never been audited or reviewed. This may be due to the fact that many centers’ accounting practices are overseen by a parent organization. New centers were less

likely (15%) to have conducted an audit or a financial review within the last three years than centers in operation for four or more years (63%). Less than one-third of small centers in our survey (1-5 staff), and more than two thirds of mid-sized centers (6-12 staff) had been audited or reviewed in the last three years compared to 41% of large centers (more than 12 staff).

- A center meeting the ‘minimum’ quality standard in PAS will have an “independent review” of its accounting. “Independent reviews” can be conducted by any non-employee of the center, for example, a parent or a board member. Centers meeting the ‘good’ standard in PAS will have such independent reviews conducted quarterly, and ‘excellent’ centers will have an annual independent audit conducted by a CPA.
- NAEYC requires an annual audit but does not specify the level of independence necessary.
- FCF’s loan application process recommends an independent audit.

While most survey respondents tracked income and expenses on an annual basis, few projected their financial needs and resources into the future or had an independent review of their finances. When it comes to the financial condition of their centers, directors appear to use financial tools focusing on the short term and may not be using them to support planning for the future.

### 3. Marketing

Child care is a service sold directly to parents; as such, communication between centers and current and potential customers is essential to the sustainability of these businesses.

#### *Marketing Tools*

Our survey found that the average center employed four different marketing and communications tools. The most common are:

- |                                    |     |
|------------------------------------|-----|
| 1. CCR&R enrollment update         | 65% |
| 2. Newsletter to parents           | 63% |
| 3. Flyers (mailed or handouts)     | 62% |
| 4. Newspaper Ads                   | 56% |
| 5. Ads in newsletters or bulletins | 50% |

Our comparisons found that:

- The PAS guidelines make no recommendations about what *types* of outreach methods centers should use, only that they should use a *number* of methods to communicate their message. A center meeting the ‘minimum’ quality standard in PAS will use three different outreach methods. Centers meeting the ‘good’ standard will use five methods. A center achieving an ‘excellent’ rating would use seven or more public relations tools.
- Neither NAEYC nor FCF’s loan application process require the use of specific types of marketing methods.

### *Marketing Plans*

Our survey found that 23% of centers conducted a market feasibility analysis and 20% of all centers had a formal marketing plan.

- The existence of a center marketing plan is one of six measures of center quality under the PAS's Marketing and public relations category. A center meeting the 'minimum' quality standard in PAS will use professional public relations materials, while centers meeting the 'good' standard will also review public relations materials to assure that they are up to date. Centers meeting the 'excellent' quality standard will also conduct a systematic review of public relations materials with multiple stakeholders every three years.
- NAEYC does not require a marketing plan.
- The FCF loan application process requires a market analysis and a marketing plan.
- A marketing strategy is a part of the Minnesota Core Competencies which specify that a Level 5 practitioner will develop and maintain program marketing plans as needed.

While our respondents were actively communicating with parents and marketing their center, they rarely had a marketing plan. This is consistent with other survey results showing a low use of strategic and business plans as well.

#### **4. Staff Qualifications and Development**

In this survey, experience is measured in terms of both general management experience and as experience in a particular center. Education experiences reported in this survey generally included both formal and continuing education.

##### *Director Education*

Our respondents had an average of 15.5 years of education, with 63% having more than 16 years of formal education. The same percentage (63%) had a background in child development/education. Additionally, 19% of directors had an educational background in human services and 11% in business. Our comparisons found:

- The PAS considers director education in two of five measures of center quality. To meet the 'minimum' standard, center directors ought to have an Associate Degree and 21 semester hours of Early Childhood Education/Child Development (ECE/CD) training. Centers meeting the 'good' quality standard will have directors with a Baccalaureate degree and 24 semester hours of ECE/CD training, while centers meeting the 'excellent' quality standard will have a director with a Master's or other advanced degree and 30+ semester hours of ECE/CD training.
- NAEYC accreditation requires that center directors have a Baccalaureate Degree and 24 credit hours of college-level coursework in ECE.
- FCF collects and assesses information regarding the management's qualifications during the loan application process.

### *Director Experience*

Our survey found that the average center director had nearly 10 years of experience (9.8 years) as a director, business owner or equivalent. On average, directors had worked nearly seven of those years (6.8 years) at their current center. Our comparison shows:

- The PAS requires centers meeting the ‘minimum’ quality standard to have directors with one or more years of management experience, while centers meeting the ‘good’ quality standard have directors with three years. Centers meeting the ‘excellent’ quality standard have directors with five or more years of management experience.
- NAEYC has no requirements for director experience.
- FCF collects and assesses information regarding the management’s qualifications during the loan application process.

### *Business Training*

We found that 22% of respondents had no staff with training in business-related areas. Of those centers that do have staff with some business training (78%), the most common types are:

1. Personnel/Human Resources Management	46% of all respondents
2. Financial Management	45% of all respondents
3. Marketing/Public Relations	45% of all respondents
4. Strategic Planning	42% of all respondents
5. Accreditation Process	41% of all respondents

The format of this training has taken the following forms:

1. One-to-four hour workshop	66% of all respondents
2. All-day conference	50% of all respondents
3. College course	33% of all respondents
4. Individual consultation	17% of all respondents

In all, 26% of center director-respondents were seeking additional business training. Half of these were interested in financial management, marketing and public relations. Forty percent would choose personnel management and accreditation training. If given unlimited training resources, centers were interested in additional business training in the same categories in which they had received training. In our comparisons:

- Business training is one of five measures of staff qualifications in the PAS. A center meeting the ‘minimum’ quality standard will have staff with nine or more credits of management coursework. The coursework rises to 15 credits for the staff of a center meeting the ‘good’ quality standard and 21 hours for the staff of a center meeting the ‘excellent’ quality standard. The content of this management training is not specified.

- NAEYC specifically requires that directors have nine credit hours of college-level coursework in school administration, business management, communication, technology and/or early childhood management/administration.
- Again, the FCF loan application process collects and assesses management qualifications.

Directors who responded to the survey were both well-educated and had extensive experience in child care and early education, and nearly one in four was interested in additional business training. Additional business training would likely be well accepted by the child care community if it were accessible to center directors.

## 5. Professional Organizations and Outreach

Participation in professional organizations allows center staff to share experiences, learn from each other, network with outside experts and identify resources.

We found that 82% of center directors who responded to the survey had participated in early childhood professional organizations within the last year. The average director was involved in two such organizations. Participation was more common among directors of non-profit centers, with 92% participation, than for-profit centers, with 70% participation. In our comparisons:

- Director involvement in professional organizations is one of six measures of center quality under PAS's Marketing and Public Relations category. The PAS finds that centers meeting the 'minimum' quality standard will at least have *some* director involvement in the ECE professional community. Centers meeting the 'good' quality standard will have directors that play an active role in that community, while centers meeting the 'excellent' quality standard will have directors with leadership roles in that community.
- NAEYC encourages program staff to participate in local, state or national ECE organizations by joining them and attending meetings and conferences as a part of developing community relationships.
- FCF's loan application process does not *require* participation in professional organizations as a part of securing a loan. However, DCC does offer an incentive program that encourages participation in one such organization.
- Participation in professional associations is an expectation in all but the lowest level of the Minnesota Core Competencies. At Level 2, a director will participate in one or more professional associations. As directors increase in competence, she/he will participate in organizations and on-going professional development to enhance knowledge and skills as well as to seek out professional relationships to enhance professional growth (e.g. identify a mentor). At Level 4, a director will use professional resources to continually improve practice. At Level 5, the highest level, directors serve on professional boards and committees.

The respondents' high level of participation in professional organizations suggests that these professional organizations are a useful vehicle for educating the child care community about the importance of quality business practices.

## **CONCLUSIONS AND RECOMMENDATIONS**

The results of this survey are encouraging. We found that the survey respondents used basic financial tools such as income and expense reports and budget forecasts at least annually. They used a variety of marketing tools and directors had above-average training and experience. These findings suggest that many directors of child care and early education businesses recognize some value of business tools and some relationship between business skills and quality child care. At the very least, the survey findings suggest that some centers are well positioned for achieving and sustaining quality standards.

DCC is working with leaders of the Northstar Quality Improvement and Rating System, the Minnesota Department of Human Services, the Minnesota Association for the Education of Young Children and the Professional Development Council to ensure that business practices are recognized as helpful tools for child care businesses to realize their quality improvement goals. Improvements in quality professional development and quality care will be realized most effectively if child care businesses have the basic management skills for creating and sustaining expected quality improvements.

Our analysis reveals that, while existing quality standards include some business practices, there is little consistency as to which business practices they recognize. We recommend that all quality standards adopt a baseline of business practice indicators.

Before conducting the business practice survey, DCC set out to examine trends in the health of child care businesses following the economic recession that started in 2001. We soon discovered that no trend data were available on the business health of child care providers because the major repositories of child care information do not store historical data. The lack of available data on business trends of the child care and early education sector is an important finding. Child care is a market-based business and child care business startups and closings are a normal trend in small business. However, policy makers should have the ability to monitor the supply and demand of child care and early education services as part of realizing the potential return on investment of this small business sector. DCC recommends that agencies that collect data on small businesses should consider collecting data about child care specifically.

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DCC's **mission** is to help children thrive and learn by forging relationships that bring economic power and viability to the business of child care.