THE MIXED ECONOMY OF CHILD CARE: AN INSTITUTIONAL ANALYSIS OF NONPROFIT, FOR-PROFIT, AND PUBLIC ENTERPRISES

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ABSTRACT

Brenda K. Bushouse

The Mixed Economy of Child Care:
An Institutional Analysis of
Nonprofit, For-profit, and Public Enterprises

Nonprofit theory predicts nonprofit enterprises will be more trustworthy than for-profit enterprises in the delivery of goods for which quality is difficult to determine because nonprofit enterprises are legally required to reinvest all profits back into the enterprise. Theoretically, consumers should demand these types of goods from the nonprofit sector or nonprofits should emerge to produce such goods for under served populations. However, empirically, mixed economies exist for the health care, nursing home, and child care industries. While there appears to be a large divide between theory and empirical reality, many public policies use sector as the basis for determining which types of enterprises can participate in public programs. However, if the theorized link between sector and trustworthy behavior (i.e., higher quality) is not supported empirically, then this brings into serious question preferential policies for nonprofit enterprises. This dissertation focuses on determining the factors most likely to produce quality service delivery and their relation, if any, to sector.

Primary data from four states indicate three key findings. First, entrepreneurial motivations for starting child care centers vary within sectors; not all for-profit entrepreneurs are profit maximizers and not all nonprofit centers are trustworthy. Second, sector does not predict adoption of quality enhancing policies (QEP). However, once the sectors are divided into categories representing differences in governance structures, variations in QEP do emerge. Therefore, while the relationship between sector and QEP is not significant, there is significant

intra-sectoral variation in mean QEP scores. This finding points towards intervening variables which are the focus of the third major finding. Data analysis reveals that those centers with institutional environments fostering adoption of QEP are ones in which: monitoring systems between the owner/board and the director are strong; budgets are sufficient; competition with other centers is based on quality rather than price; and, the director is well integrated into the early childhood professional community. Therefore, public policies favoring one sector over another are not likely to result in improving child care quality. Based on this research, effective public policies must encourage these institutional variables in order to positively impact center adoption of quality enhancing policies.

TABLE OF CONTENTS

Chapter 1: Introduction

Nonprofit Theory and the Puzzle of Mixed Economies

Much of nonprofit research over the past 20 years focuses on how a nonprofit enterprise is different than a for-profit or public enterprise. Influential early theorists relied on the legal constraint that nonprofits face in redistributing profit to justify nonprofit production of certain types of goods. Hansmann (1980, 1986) developed Contract Failure Theory to explain consumer demand for nonprofit production of private goods with information asymmetry between buyer and seller. Weisbrod (1977, 1988) developed the theory of Market/Government Failure to explain nonprofit production of collective goods (defined by Weisbrod to include goods that have shared benefits). In these foundational theories, the nondistribution constraint is the primary justification for the nonprofit institutional form. In Contract Failure Theory it signals quality to consumers because of the legal constraint nonprofits have in reinvesting all profit back into the enterprise. In Market/Government Failure Theory nonprofits will be formed to produce collective goods to meet under satisfied demand because the nondistribution constraint removes the incentive for the nonprofit to place profit above quality. Thus, for private goods with information asymmetry and collective goods, nonprofit theories predict nonprofit production.

However, a major source of consternation for nonprofit researchers is the persistence of mixed economies. A mixed economy is one in which for-profit, nonprofit, and at times, government are producing in the same industry.[1] Nonprofit theories, by concentrating on

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[1]It is important to note that the type of nonprofit populating mixed economies is a *commercial entrepreneurial* nonprofit. This classification developed by Hansmann (1986:61) categorizes nonprofits into a two by two matrix according to the manner in which they are financed (donative or commercial) and controlled (mutual or entrepreneurial). Nonprofits populating the hospital, nursing homes, and child care industries are *commercial entrepreneurial* nonprofits meaning that they receive their

sectoral differences, have not been able to adequately explain the co-existence of sectors in these industries. Examples of mixed economies include child care, hospitals, and nursing homes. Figure 1-1 indicates the for-profit and nonprofit share of these industries. In the child care industry there are approximately twice as many for-profit as nonprofit establishments. For hospitals, the industry is dominated by nonprofits. In nursing care, there are greater for-profit establishments than nonprofit but the difference is not nearly as dramatic as the other two industries. This dissertation seeks to expand theoretical understanding of mixed economies. Given the high incidence of for-profit child care establishments, the empirical focus of the dissertation is on the child care industry.

Substantial empirical research in child care attempts to link sector to quality. Until recently, empirical evidence pointed toward sectoral differences (Keyserling, 1972; Ruopp et al., 1979; Kagan and Newton, 1989; Whitebook et al., 1989). These studies indicated a positive relationship between nonprofit structural quality measures (such as staff-to-child ratio and teacher qualifications) and process quality (overall center quality measures). The most recent study, Cost, Quality and Child Outcome (CQCO) study, found no support for overall quality variation by sector. Puzzled by this result, the researchers state, "... the finding that overall quality does not vary between sectors except in North Carolina[2] is surprising and needs to be explained" (CQCO study team, 1995:58). In searching for an explanation for this result, the authors note that only half of the variance in quality among centers is explained by their statistical measures of quality. When they divided the sectors into subsectors, they found that the

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revenues mainly by fees and they are controlled by a self-perpetuating board rather than by patrons.

[2]The study includes fours states: Colorado, North Carolina, California, and Connecticut. North Carolina had the lowest regulations of the study and the findings for that state supported quality variation by sector.

intrasectoral variation was as great as intersectoral variation. Their analysis indicated that: “1) variation by subgroup within sectors is systematic, with the church-affiliated subsector more closely resembling centers in the for-profit sector than its own; and 2) there is greater variation within the nonprofit subsector than within the for-profit subsector on characteristics related to center quality” (CQCO,1995:59). Thus, the most recent research points toward significant intrasectoral variation that is not easily explained by existing nonprofit theory. If the nondistribution constraint translates into greater trustworthiness of the nonprofit form, then quality differences should be pronounced between sectors and intrasectoral variability should only occur in cases where for-profits are in disguise as nonprofits (i.e., faulty enforcement of the nondistribution constraint). Since the CQCO study found significant intrasectoral variability, either the incidence of for-profits in disguise is high or there are intervening factors influencing the relationship between nonprofit institutional form and service delivery.

Another conundrum is that Contract Failure Theory predicts consumers will demand goods characterized by information asymmetry from nonprofit producers (Hansmann, 1980, 1986). However, empirical research on child care, a good characterized by extreme information asymmetry, indicates parents do not use ownership as a signal for quality. Permut (1981), in a telephone survey of parents, found that they often do not even know which organizations are nonprofit and which are for-profit. In a survey of Wisconsin parents, Mauser (1993b:6) found that 44 percent could not correctly identify the institutional form of their child care center. Only 14 percent of the parents surveyed cited institutional form as an important determinant in their choice of program. Child care resource and referral services in three of the four states studied in this dissertation (New York, Indiana, and North Carolina) do not collect information on whether the child care center is organized as a nonprofit or for-profit for their databases (McCullough, 1997; Batchelor, 1997; Koehler, 1996; Jackson, 1997). And, since these are secondary markets explicitly devised to assist parents in finding child care, there is good reason to believe that institutional form alone is not a primary factor in the choice of parents regarding child care centers. Mauser (1993a) did find that parents choosing religious nonprofits were significantly different than those selecting secular nonprofits. But, there were no significant differences between parents selecting secular nonprofits and for-profits.

Clearly there exists a gap between nonprofit theory and the empirical reality of the mixed economy for child care. The theoretical justification of the nonprofit based upon the nondistribution constraint and the subsequent inability to support that link in empirical research has led some researchers to question whether institutional form is relevant. In a study of child care in Canada, Krashinsky (1993) found that quality was variable in nonprofits but that nonprofits did appear to offer higher quality than for-profit centers. He concluded that institutional form does matter but that more attention needs to be placed on enforcing the nondistribution constraint to guard against for-profits in disguise as nonprofits.[3] This may indeed be the case that greater attention on enforcement will lessen the prevalence of for-profits in disguise as nonprofits but it does not explain fully why multiple sectors populate these industries or why many parents do not recognize the nonprofit institutional form as a signal for quality.

Nonprofit research has yet to understand the dynamics of mixed economies in which for-profit, nonprofit, and public enterprises produce services. Salamon explores the partnership between government and nonprofits evolving as a result of contracting relationships (1995). Yet,

[3]For-profits in disguise are enterprises that are legally defined as nonprofits but operate as a business. Nonprofit status is adopted because of the benefits of nonprofit incorporation such as tax exempt status and tax deductible donations. But, circumvention of the nondistribution allows the enterprise to function as a for-profit.

there is no discussion of industries in which the government is a direct producer of services rather than a provider of funds. In mixed economies, the public sector may be in direct competition with the for-profit and nonprofit sectors by producing services in the same industry. For example, in the child care industry, public schools are increasingly offering early childhood programs (Mitchell, Seligson, and Marx, 1988). Newly created public school programs may compete directly with established for-profit and nonprofit child care centers. In Market/Government Failure Theory, nonprofits fill niches under served by the public or for-profit sectors. How then can we explain competition between sectors?

As discussed above, much of the research on mixed economies has been sector-based. But, comparing for-profit to nonprofit to public may be too high a level of abstraction to observe patterns of interaction. As the CQCO study (1995) indicates, there is significant intrasectoral variation. In this dissertation, nonprofit and for-profit enterprises are divided by *governance structure* rather than by sector. Governance structure refers to the policymaking rule environment. Enterprises are divided into sponsored and independent nonprofit, proprietary and corporate for-profit, and public enterprises.[4] Sponsored nonprofits are organized under the auspice of another enterprise's nonprofit (i.e., 501(c)3) incorporation whereas independent nonprofits have their own incorporation. Whether a nonprofit is sponsored or independent affects the process for making policy decisions. A sponsored nonprofit has a governing board which has oversight of its operations but also oversight of the operations of the larger organization. An independent nonprofit has a governing board with a singular mission of

[4]As will be discussed in Chapter 4, this research explores child care services produced in public schools. Federally provided child care through the Head Start program is excluded from the study. In the two cases with public school production there are similar governance structures. Therefore, there is only one category of governance structure included in the study for public enterprises.

overseeing the enterprise. Thus, the rules regarding policy decisions and monitoring of a sponsored nonprofit's governing board may be significantly different from an independent nonprofit. Similarly, for-profits are divided by governance structures including proprietary and corporate enterprises. Since a proprietary enterprise does not require a board of directors, the process for making policy decisions is within the authority of the owner. Corporations are required to have boards of directors with oversight responsibilities. Therefore, the governance structure of these two types of for-profits are significantly different. Public enterprises have a variety of governance structures. However, in the mixed economy of child care, school districts provide and often produce the services. School districts have elected school boards and administrative oversight. Therefore, in terms of child care services the governance structures are similar.

Nonprofit theory and sector-based empirical studies focus on linking institutional form to quality of services delivered. For child care, centers are assessed for their performance on quality indicators such as staff/child ratio, developmentally appropriate curriculum, and teacher education (Ruopp et al., 1979) and are then compared by sector. But, little attention has been given to the factors influencing the adoption of policies by the child care enterprise that lead to quality service delivery. In this dissertation, the focus is on identifying rule environments most likely to encourage adoption of quality enhancing policies. Based on the Institutional Analysis and Design Framework (Ostrom and Kiser, 1982) rules are divided into three levels: constitutional, collective and operational. This framework is an analytically useful tool for grouping rules in order to isolate effects at different levels and to understand linkages between levels. Rather than focusing on measuring outcomes and trying to link those outcomes to sector, this research examines the internal and external rules affecting decision making processes within alternative governance structures. The objective is to determine those rule environments most likely to result in policy decisions which enhance the quality of services delivered.[5]

The section below provides a brief history of the child care industry and a discussion of the child care policy environment. The chapter concludes with a description of the progression of dissertation chapters.

The United States Child Care Industry: A Brief History[6]

The child care industry has been transformed in the last three decades from a largely informal industry dominated by grandmothers, babysitters, next door neighbors, and nursery schools located in church basements into a highly competitive industry. Census data indicates that the number of preschool age children (ages 3 and 4) in organized child care facilities increased from 13 percent in 1977 to 29.4 percent in 1994 (Casper, 1997). This transformation is a direct result of increased female participation in the formal labor force. In 1960, 37 percent of women participated in the civilian labor force. By 1990, the rate of participation increased to 58 percent (*Statistical Abstract*, 1994). This trend is particularly pronounced for women in their prime child bearing years (ages 25-34). Participation for this age group increased from 36 percent in 1960 to 74 percent in 1990. The increased labor force participation of women in their child bearing years resulted in a concomitant demand for child care services. The 1990 National Child Care Survey found that in households with employed mothers of children

[5]As will be fully discussed in Chapters 2 and 3, this dissertation does not directly measure quality of services delivered.

younger than age three, 63 percent relied on a relative, in-home care or other informal arrangement and 37 percent relied on formal sector care. For preschool age children (ages 3 and 4) the formal sector share increased to 47 percent. The terms informal and formal refer to the regulatory status of child care arrangements. The informal sector consists of those arrangements not monitored by the state agency overseeing child care regulation.[7] It includes care arrangements such as out of home care by a relative or neighbor and in-home care by a nanny, *au pair*, or babysitter. The formal sector consists of regulated child care enterprises such as day care homes, nursery schools, and child care centers. Day care homes are operated primarily in the owner's home and are regulated by the state by either a license or registry[8] if they serve more than a few unrelated children. The actual number allowed before a license or registry is required varies by state. Nursery schools are part-day programs for preschool age children. Some states require licenses and others exempt part-day programs. Child care centers are full-

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[7]In some states there is an attempt to monitor informal child care arrangements in which caregivers receive state vouchers to deliver services. For example, California requires nonrelative caregivers receiving vouchers to undergo criminal background checks as a prerequisite for participation in the voucher program. However, the informal market is virtually unregulated in terms of child care quality.

[8]Many states require certain types of child care enterprises to register with the state. Registering typically entails signing an agreement in which the child care operator agrees to certain operating conditions (e.g., health and safety). In many cases, registered child care establishments are not inspected. Day care homes have far fewer compliance standards than licensed child care facilities.

day programs serving larger numbers of children than day care homes. All centers are required to have a license to operate.[9]

In the early 1960s nonprofit nursery schools, small proprietary centers and day care homes were the dominant formal child care arrangements. Towards the end of the decade, the national Comprehensive Child Development Act was being considered. This Act would have created a large child care financing role for the federal government. In anticipation of the potential for federal funds and the increasing demand from working mothers for formal child care, business people from other industries started moving into child care viewing it as a boom industry (Klein, 1992). Perry Mendel, a southern real estate developer founded Kinder-Care centers at this time. It has now become the largest child care chain in the country with 1,176 centers (Neugebauer, 1998). CenCor, a French franchising conglomerate, started La Petite Academies which is currently the second largest chain in the country with 750 centers (Neugebauer, 1998). President Nixon vetoed the Comprehensive Child Development Act but in spite of dim prospects for federal funds, these businesses flourished. The initial expansion of chains lasted from 1969 through 1972. In the early 1980s child care chain growth increased and consolidation began as a trend (Klein, 1992). 1990 data indicate child care chains account for six percent of the total number of child care centers (Willer et al., 1991). However, child care chains continued to grow throughout the 1990s and child care

[9]Some states require church affiliated centers to register with the state rather than be licensed. Registry requires fewer compliance standards than licensing.

industry experts expect child care chains to represent an increasing share of the industry (Neugebarger, 1998).

Another entrant to the child care industry is public schools. Some states, such as California, have had public school preschool programs since World War II. Most states, however, if they have considered public school delivery of preschool at all, have only begun such programs in the last two decades. There is little national level data on public school preschools unless the programs use federal funds. Decisions are often made at the district level and the information is not aggregated to the state or national level. The most comprehensive study to date found that 27 states had prekindergarten programs (Mitchell et al., 1989). Twelve of the states offered full-day programs and the remainder offered only part-day programs. While little national data is available, the potential for universal preschool in public schools has been the subject of considerable academic debate (Kagan and Zigler, 1987; Bauch,1988; Mitchell et al., 1989). Supporters point towards equity issues: that all children should have access to preschool. Opponents point towards early childhood issues: extending kindergarten services down to younger ages forces children into developmentally inappropriate environments. For this research, public school production of child care is of interest because of the potential for competition with the for-profit and nonprofit sectors. In states such as California, the formal child care industry grew up around the public school system. In other states such as North Carolina, public school preschool programs were created in mature industries. In these areas, existing for-profit and nonprofit child care enterprises may be negatively affected by competition from the public school system. However, if the schools target an under served clientele then direct competition with other sectors may be avoided.

The child care industry is changing both in regard to the entrance of the public sector and the increased presence of for-profit chains. The following section discusses the shift in the orientation and delivery system in child care policy for low income families.

Policy Environment for Child Care

In the past, formal child care was primarily within social welfare policy. However, in the current environment less emphasis is being placed on the functions of social service and social reform and more on establishing the liberation-universalization and economic functions (NBCDI 1985; Moore and Phillips 1989). In an exploration of child care as an item of public policy debate, Klein concludes, "[c]hild care no longer is seen as an instrument for social change, but as a facilitator for parental employment" (1992: 225). This major policy shift is evident when comparing child care policies for children of low income families. The Head Start program started in the 1960s provides preschool for low income children. The main objective of that program was primarily social welfare: to provide children of low income families with positive child development experiences as a means to improve chances of future success (Cravens, 1993). In the current debate over welfare reform, child care has emerged as a critical policy issue not because high quality care at early ages positively impacts future success but rather as a means of moving adults from welfare to work. The Personal

Responsibility and Work Opportunity Reconciliation Act of 1996 focused national attention on the direct relationship between working mothers and the demand for child care.

Welfare reform, as well as shifting the policy focus from social welfare to facilitating parental employment, represents a major shift in delivery of child care for low income families. Head Start is delivered by public and nonprofit organizations using federal and state funds. In the new welfare reform, each state has considerable flexibility in determining how child care funds will be allocated. The new Child Care Development Fund combines previous funding sources (the Child Care Development Block Grant and the Title IV-A of the Social Security Act) into one block grant that can be used as states deem necessary. The previous funding streams targeted specific populations. Welfare reform also reduced Title XX Social Services Block Grant (SSBG) by 15 percent from 1996-2002. Many states used Title XX funds to directly subsidize child care centers serving low income families. However, states are now moving most if not all child care funds into voucher systems. In voucher programs, parents have complete discretion in choosing their providers. A parent can choose to spend her/his voucher in the formal or informal sector. Thus, this brings to an abrupt halt the practice of directly subsidizing child care centers serving low income families. And, since these centers are primarily nonprofit, thus ends a long history of nonprofit preferential policy.[10] The move towards

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[10]One long standing preferential policy remains. The United States Department of Agriculture's Child and Adult Food Care Program (CAFCP) requires for-profit child care centers to serve 25 percent low income children before the center can participate in the program. Nonprofit centers are eligible to participate regardless of the number of

vouchers also opens up federal funds to the informal sector. Thus, welfare reform radically alters the playing field for child care centers serving low income families.

Conclusion

The theoretical basis for sector based production of goods continues to influence academic research and policymakers. The belief in the inherent trustworthiness of the nonprofit institutional form created a policy environment in which nonprofits were the preferred producers of social services. The emphasis on difference in the academic realm translated into preferential treatment of nonprofit enterprises in public policies. However, nonprofit theories premised upon the link between the nondistribution constraint and trustworthy behavior are insufficient for explaining the complexity of mixed economies. As discussed above, prior empirical research does not support sector based quality differences. Rather than relying on one rule, the nondistributional constraint, to predict behavior this research explores the total rule environment leading to policy decisions within an enterprise. This dissertation seeks to define the rule environments in which nonprofit, for-profit, and public enterprises make decisions which ultimately affect quality of services delivered. If we can better understand how external rule environments interact with governance structure and the range of internal rules that affect decision making, then we may be able to link quality enhancing policies to particular rule environments.

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low income children they serve. The CAFCP subsidizes the food costs of low income children.

This dissertation seeks to contribute to the debate over policy mechanisms for subsidizing child care for low income families. A radical shift has taken place in delivery systems for low income child care. Yet little attention has been paid to critical issues of what institutional arrangements lead to quality service delivery. If quality cannot be predicted by sector then on what theoretical basis should policymakers make decisions for allocating child care funds? In the abrupt shift to voucher systems, the fundamental question regarding what factors positively influence the quality of services delivered has yet to be answered. Zigler and Lang ask: "...how can we make the mixed system of child care in the United States an effective social institution that supports families in their responsibilities?" (1991:26). This dissertation seeks to contribute answers to that question. The following chapter critiques nonprofit theories and presents an alternative theoretical approach to understanding mixed economies. Four research questions are presented that will be explored in the dissertation. In Chapter Three, these research questions are applied to the child care industry and developed into hypotheses. Research design and case descriptions are discussed in Chapter Four. Chapter Five presents the empirical analysis. The dissertation concludes with policy implications and plans for future research.

Chapter 2
A Critique of Nonprofit Theories and an Alternative

Introduction

In Chapter 1, a review of the recent empirical and policy literature about mixed economies revealed a number of important empirical regularities and puzzling policy questions. Empirically, mixed economies exist in many service industries such as child care, nursing home care, and hospital care. These are industries in which there is considerable potential for producers of services to decrease quality without being detected by the purchaser. Many policymakers have assumed until recently that for-profit producers could not be trusted to produce quality services in these types of industries and have therefore favored public or nonprofit producers. And yet, consumers choose to purchase these services from for-profit as well as nonprofit and public producers. Obviously, there is a gulf between policymakers and consumers.

Preferential policymaking is based upon the assumption of a link between the legal constraint preventing public and nonprofit organizations from redistributing profits to shareholders or owners (this is referred to as the nondistribution constraint) and trustworthy behavior. In this chapter, I will examine the core theoretical work focusing on the question of why particular institutional forms are predicted to provide specific types of goods and services. It will soon be obvious to the reader that the regularities found in the empirical literature are not predicted by the theories. Further, prior theoretical work assumes that the nonprofit institutional form will be either an optimal form for the provision of some kinds of goods or a “second-best” form but with relatively desirable features. In this view, preferential policies to encourage the nonprofit institutional form is an appropriate public policy. If, however, past theoretical work generates predictions that are not supported by empirical studies, the normative recommendations flowing from these theoretical foundations are called into question.

The policy question of whether commercial entrepreneurial nonprofits[1] and for-profits should be treated differently in mixed economies hinges upon the link between institutional form and service delivery. If commercial entrepreneurial nonprofits can be “trusted” more than for-profits to produce goods characterized by significant information asymmetries then a justification for nonprofit preferential treatment can be made. However, this assumes that nonprofits producing these types of goods can actually be trusted and that for-profits will actually exploit the information asymmetry to increase profits. If either of these conditions do not hold across the sector, then blanket policies giving preferential treatment to one sector over another in the same industry are open to serious questions. To examine these issues, this chapter is divided into three sections. The first section reviews nonprofit theories. The second section utilizes the theory of goods to challenge the assumptions underlying nonprofit theories. The third section presents an alternative framework for understanding mixed economies and develops research questions to be explored in this dissertation.

[1]Hansmann (1986: 59-61) distinguishes four types of nonprofits based upon revenue source and controls of the organization. This research focuses on one type of nonprofit referred to as “commercial entrepreneurial.” These nonprofits generate revenues mainly by fees and are controlled by a self perpetuating board rather than by patrons. It is this type of nonprofit that commonly populates mixed economies.

Nonprofit Economic Theories

Economic explanations of the nonprofit institutional form stem from two foundational theories: Market/Government Failure (Weisbrod, 1977, 1988) and Contract Failure (Hansmann, 1980, 1986). These nonprofit theories credit the legal constraint nonprofits have in distributing surplus as the primary variable in explaining the nonprofit institutional form. Theoretically, this nondistribution constraint facilitates higher quality production because nonprofits put all "profits" back into the organization. Thus, consumers will demand goods and services produced by nonprofits because they can trust them to devote their entire earnings to production.

Market Failure/Government Failure

Burton Weisbrod (1977, 1988) developed a behavioral model of institutional provision of collective goods referred to as the demand diversity model.[2] It is a two-pronged model linking the nature of the good to the appropriate institution.[3] If a good is private, he hypothesizes that the market will always provide it at an optimal and efficient

[2] In his 1977 book Weisbrod uses the term "collective-consumption good" which he defines as a good that "can be enjoyed by a number of people simultaneously" (1977: 11). In his 1988 book he uses the term "collective good" but does not define this term.

[3] In this model Weisbrod makes six assumptions: 1) consumers behave rationally; 2) a given state of technology and set of production possibilities which permit production of some private-consumption goods and some collective-consumption goods; 3) individual utility is a function of the availability of private-consumption goods and collective-consumption goods; 4) individuals' utility functions differ; 5) "nonbenefit-principle tax-pricing" means that individuals are not able to equate the amount of tax paid to the amount of benefits received; 6) consumer-voter demand influences government decisions to supply a good through a political voting process (1977:52-53). Depending on the decision rule of the political process, there can be zero level of governmental provision of a collective good even though a large minority or even a majority has positive demands. These last two assumptions allow the level of government provision to exceed some voters' demand and fall short of others.

level. If a good is collective, however, then for-profit firms in the market will fail to provide it at an optimal level (i.e., market failure). This is because collective goods can be enjoyed by a number of people simultaneously which means that for-profit producers will not be able to prevent individuals from enjoying the good without paying for it.[4] And consumers will not have an incentive to reveal their true demand for the collective good. Therefore, for-profit entrepreneurs will not be willing to produce collective goods at a socially optimal level. When market failure occurs, Weisbrod hypothesizes that the institutional choice is then between government and the nonprofit sector. The choice between the two hinges on the heterogeneity in the quantities of collective goods demanded.[5] The greater the heterogeneity, the less the government will be able to satisfy all consumers (i.e., government failure) because of constraints of the political process. For those dissatisfied with government provision of collective-consumption goods there are four alternatives: 1) dissatisfied voters can migrate to other political units (Tiebout, 1956);[6] 2) consumer-voters may organize to form lower-level governments to provide additional units themselves; 3) consumers may resort to private market alternatives by

[4]Weisbrod only addresses the jointness of use attribute and not exclusion. This issue will be fully discussed in the critique presented later in the chapter.

[5]It is important to note that Weisbrod is referring to the "heterogeneity of quantities demanded for the given set of tax prices," not heterogeneity of consumers or heterogeneity of consumer demand functions (1977:61). Weisbrod notes that only if tax prices were all Lindahl-equilibrium prices (meaning equating for each consumer the marginal tax price with his marginal valuations of output) would consumers all demand the same quantity of the collective good (Weisbrod, 1977:61).

[6]This applies to both undersatisfied and oversatisfied consumers in that both prefer to alter either the tax-price system or the distribution of the good (output-determination system). The remaining three alternatives are faced only by the undersatisfied consumers.

substituting private-goods for the collective-consumption goods; and, 4) consumers may resort to voluntary (i.e., nonprofit) organizations.[7] The fourth option is a "second best" solution in that it supplements the public provision (which can be zero) and provides an alternative to the private-sector provision of the private-good substitutes for collective goods. Undersatisfied demanders will form and maintain nonprofit organizations if the free-rider problem can be overcome (1977:60).

Based on the demand diversity model, Weisbrod hypothesizes that the greater the homogeneity within a political unit, the smaller the degree of dissatisfaction with a politically determined level and quality of output of collective goods. Conversely, the greater the heterogeneity within a political unit, the greater the degree of dissatisfaction. The degree of homogeneity/heterogeneity is affected by characteristics influencing demand for the collective good including: income, wealth, religion, ethnic background, education level, etc. (1977:56).[8] The size of the nonprofit sector in an industry can be expected to be a function of the heterogeneity of population demands (i.e., heterogeneity of quantities demanded for the given set of tax prices). In sum, nonprofit organizations fill a niche not adequately served by for-profit enterprises or government enterprises. In the former case because for-profits will not find it profitable and in the latter due to difficulty in winning support in the political process.

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[7]In his 1977 book, Weisbrod uses the term "voluntary associations" to refer to nonprofit organizations.

[8]Weisbrod lists these characteristics but does not discuss them in any detail.

A few aspects of this theory are important to note. First, while the demand diversity model predicts that undersatisfied consumers will form nonprofits to meet their demand, the process of institutional supply is not developed. Second, after the formation of a nonprofit occurs, little attention is devoted to how consumer demand for nonprofit production of collective goods will be articulated. Third, a shortcoming that will be developed more thoroughly below, is that the use of the "collective goods" term actually comprises three different types of goods. A more careful analysis of the good and its relation to institutional form leads to a fuller explanation of mixed economies.

Contract Failure

The second notable contribution is the Theory of Contract Failure as advanced by Henry Hansmann (1980, 1986). Hansmann asks whether consumers without undue cost or effort can: 1) make a reasonably accurate comparison of the products and prices of different firms before any purchase is made; 2) reach a clear agreement with a chosen firm concerning the goods or services that the firm is to provide and the price to be paid; and, 3) determine subsequently whether the firm complied with the resulting agreement and obtain redress if it did not (1986:61). If the answer is yes, then the for-profit firm will supply goods and services at the quantity and price representing maximum social efficiency.[9] If the answer is no, contract failure occurs and the customer will seek ways to monitor and enforce the contract.

[9]There are other conditions but these are the most important.

In some cases, due to the nature of the good or the conditions of exchange, consumers may be incapable of evaluating goods accurately.[10] Consequently, they will not be able to differentiate between sellers to locate the best bargain or be able to enforce the bargain once it is made. Consumers may turn to a nonprofit because it does not have the profit incentive that might lead it to cheat the customer. In other words, consumer choice of the nonprofit is due to its greater *trustworthiness.* As a result of the nondistribution constraint, the discipline of the market is "supplemented by the additional protection given the consumer by another, broader 'contract,' the organization's legal commitment to devote its entire earnings to the production of services. As a result of this institutional constraint, it is less imperative for the consumer either to shop around first or to enforce rigorously the contract he makes" (1980:62).

However, without the profit motive there is less of an incentive for the producer to be efficient or to react to demand changes as quickly as a for-profit. Hansmann states, "...nonprofit firms are at a disadvantage relative to for-profit firms in various respects, including access to capital, efficiency of operation, and speed of entry and growth in expanding markets. Consequently, whether nonprofit firms are more suitable than for-profit firms in any given industry depends upon the balance of competing factors" (1986:80). Subsequently, only if the protection of the nondistribution constraint is valued by the purchaser to the extent that it counterbalances the disadvantages listed above will nonprofit firms have a competitive advantage over for-profit firms.

[10]Hansmann does not discuss the nature of the good in any detail. However it is evident from his discussion that he is referring to private goods with information asymmetry.

Hansmann notes that nonprofits may still succeed in distributing net earnings in the form of higher salaries, perquisites and other forms of excess payments. But, when the consumer is in a poor position to judge the services being purchased, any approach to organizing protection is a "second best" arrangement. Hansmann states, "[i]n sum, I am suggesting that nonprofit enterprise is a reasonable response to a particular kind of 'market failure,' specifically the inability to police producers by ordinary contractual devises, which I shall call 'contract failure'" (1986:62). Hansmann's contribution is considered seminal in that the nondistribution constraint has been the foundation of much of the later modeling of nonprofit firms (e.g., Easley and O'Hara, 1986; Steinberg and Gray, 1993).

Adding Voice to the Nondistribution Constraint

Krashinsky (1986) accepts the nondistribution constraint as a demand condition for nonprofit production but asks a second question: why is the nonprofit firm a better solution to monitoring than other institutions such as professionalism, public regulation, warranties, liability loss, insurance against liability, reputation, franchising, etc. (1986: 116-7). He argues that the critical role for nonprofit firms is when there is a separation between the purchaser and the direct beneficiary of the output. In these situations there is an inherent difficulty in monitoring quality. Because nonprofits offer consumers the opportunity to use voice (direct input into the management of the firm) they will be the preferred alternative. In terms of the public versus nonprofit institutional choice, he argues that using the public sector itself involves transaction costs which can make nonprofit organizations a more efficient alternative; "[i]n order to avoid the government, interest groups will sometimes form nonprofit institutions to provide the public good themselves, judging that the free-rider and other transaction costs of nonprofit firms are less than the cost of turning to the public sector" (1986: 125). Thus, consumers prefer nonprofits over government because that is the only way to be sure that contributions advance the stated goals of the organization (Krashinsky, 1986: 121).

Ben-ner and Van Hoomissen (1993) expand the range of actors who may use use voice to include organizations and public bodies, in addition to consumers. They use the term "demand-side stakeholders" which includes "individuals, organizations, or public bodies that either 1) pay for and consume a good (traditional consumers), or 2) sponsor the consumption of a good by someone else" (1993:31).[11] They hypothesize that the combination of control by demand-side stakeholders and the nondistribution constraint make nonprofits more trustworthy than for-profit firms. This is especially the case for nonrival goods (goods that cannot be divided) that are also characterized by information asymmetry. Institutional arrangements for nonrival goods must decrease the effects of information asymmetry. However, as they note, suspicions will remain to the extent that an incentive to deceive still exists even though a nonprofit may not overtly redistribute profits. The nondistribution constraint can be circumvented if managers pursue their own preferences for higher salaries, perquisites, etc. (Ben-ner and Van Hoomissen, 1993:35). For this reason, stakeholders may either form their own organization or seek an

[11]Ben-ner and Van Hoomissen's sponsored consumption explanation for good provision is similar in some respects to Musgrave's (1959) concept of merit goods. He defined merit goods as those supplied as a service to a larger community. They are provided because of their *merit* in serving a larger public aim.

organization controlled with similarly-minded stakeholders. According to Ben-ner and Van Hoomissen, "stakeholder control signals trustworthiness for nonrival goods" (1993:35). Therefore, the nondistribution constraint must be supplemented by demand-side stakeholder control for nonprofits to be trustworthy.

Critique of Nonprofit Theories

In examining the underlying assumptions of these theories of nonprofit organizations, two are of critical importance: 1) the assumption linking the nature of the good to institutional form; 2) the assumption linking the nondistribution constraint to trustworthiness of the nonprofit institutional form. Both of these issues are analyzed below.

The Assumption Linking the Nature of the Good to Institutional Form

Much of the theorizing about nonprofits suffers from a lack of clarity about the nature of the good and its relation to institutional arrangements. With the exception of Ben-ner and Van Hoomissen, goods are divided into only two types: private and collective. Hansmann (1980) exclusively focuses on private goods with information asymmetry. Weisbrod (1977, 1988) and Krashinsky (1986) do not distinguish between different types of collective goods. Each of these theories links a good with an institutional form. But, insufficient attention devoted to the nature of the good leads to false assumptions regarding the link to the nonprofit institutional form.

Nature of the Good

Traditionally goods have been divided into public and private depending on two attributes: *exclusion* (Musgrave, 1954) and *jointness of use* (Samuelson, 1954).[12] Musgrave defined exclusion as whether it is possible to exclude someone from benefitting from a good once it is produced. The classic example of a nonexcludable good is national defense because once the good is provided all persons within a nation receive the benefits. At the opposite extreme, a good such as bread is easy to exclude because if one person is selling it, another cannot gain access to it without an exchange taking place. If the seller decides to keep the bread, then the would-be buyer is effectively excluded.

Jointness of use refers to the extent to which more than one person can benefit from the good simultaneously (Ostrom and Ostrom, 1970). National defense has the attribute of jointness of use because everyone can benefit from the good. Bread has the attribute of nonjointness of use in that if one person possesses the bread another cannot possess it simultaneously. Exclusion and nonjointness in use are defining attributes of pure private goods (e.g., bread) whereas difficulty of exclusion and jointness of use are the defining attributes of pure public goods (e.g. national defense).

However, many goods do not fit neatly into these two categories. For example, it is difficult to exclude people from fishing on the open seas. Therefore ocean fishing leans toward being categorized as a public good. Yet, one person's harvesting of fish decreases the amount available to the next user. This attribute of the good classifies it closer to a

[12] Musgrave advanced exclusion and Samuelson advanced jointness in use. Subsequent research adopted one or the other and some argued for both (Heady, 1962; Ostrom and Ostrom, 1977). For a discussion of this see Ostrom, 1987.

private good. A second example of a good that does not fit either public or private good definitions is a movie theater. Entrance fees effectively exclude nonpayers but the facility is jointly used by consumers. But, unlike public goods, if too many consumers use the facility at any one time, crowding occurs and each individual's benefits are reduced.

To better explain the diversity of goods, scholars in the public choice tradition developed a more refined theory of goods building on the exclusion and jointness of use attributes. They define two additional categories: toll goods and common-pool resources (Ostrom and Ostrom, 1977). The movie theater example is classified as a toll good because it has the attributes of excludability and jointness in use. Institutional arrangements for toll goods must deal with entrance mechanisms and crowding problems. The fishing example described above is an example of a common-pool resource (CPR). CPRs share the nonexclusion attribute of public goods which means that they are subject to free-rider problems. But they also share the nonjointness of use attribute of private goods. Therefore, CPRs are depletable unless institutional arrangements exist for regulating appropriation and provision (Ostrom, 1990; Ostrom et al., 1994).

In the development of the theory of goods, there has been a great deal of confusion about the jointness of use attribute. The jointness of use attribute has been called rivalry, subtractability, and divisibility. Researchers concerned with goods theory clarify the use of these terms by distinguishing between stock and flow (Bloomquist and Ostrom, 1985; Ostrom et al.,1994). For example, a facility may be built which is jointly used by many people. However, the flow of services from the facility may be partly or fully subtractive. If the flow of service is *subtractive* then that means that it can be depleted. In terms of rivalry, a facility producing a flow of services that is subtractive may not be characterized by rivalry at low levels of use. However, as demand for services increases to a maximum use level, rivalry will become a problem (Ostrom et al., 1994: 108, footnote 7). The term *rivalry* is used to convey the degree to which individuals compete for the good. Ostrom et al. note that failure to make the distinction between the joint use of an infrastructure facility and the flow of services from that facility has resulted in substantial confusion (1994:89). If we are linking attributes of goods to institutional arrangements, then it is critical to accurately characterize the nature of the good before drawing conclusions about appropriate institutional arrangements.

Categorizing goods by their attributes determines the types of dilemmas associated with different goods which then points us towards institutional solutions. For public goods, a person can benefit from the good while not contributing to its provision. This attribute causes a collective action dilemma. Since benefits can be received without paying for them, a temptation to free-ride exists (Olson, 1965). If left unchecked, free-rider problems will lead to suboptimal provision of the public good. For this reason, traditional economic theory concludes that a governing structure with the power to tax individuals and to enforce compliance is the appropriate institutional arrangement to overcome the free-rider problem. Because private goods are excludable, an exchange must occur which means that one individual must be willing to pay a certain price and another must agree to it. And, because private goods have the attribute of nonjointness of use, the good cannot be purchased by more that one person simultaneously. As long as goods have those two attributes, market institutions are predicted to produce an optimally efficient allocation of goods.

CPR researchers adopt the attribute subtractability rather than jointness of use because of the subtractive nature of resource units. Grazing lands, forests, and fisheries are all subject to depletion. Therefore, CPR researchers devote attention to how different CPRs are subtractable. Making the distinction between stock and flow is critical for a CPR because this leads to the identification of two separate problems. Having sufficient stock is a provision problem and monitoring the flow of the resource is an appropriation problem (Ostrom et al., 1994). Both problems have to be solved to successfully maintain the CPR. Olson's seminal book *The Logic of Collective Action* directed us towards the problems associated with nonexcludable goods, namely the free-rider problem. Researchers extending Olson's work made the assumption that the appropriate institutional arrangement for CPRs is similar to that of public goods: public provision. Hardin advises privatization or government provision to avoid the depletion that ultimately leads to "the tragedy of the commons" (1968). However, by addressing both the provision and the appropriation problems, CPR researchers find that not only are there a wide variety of successful nongovernmental institutional solutions, but that many cases in which government provision supplanted long enduring communal governing institutions actually led to the tragedy of the commons (Ostrom, 1990).

Research on toll goods emanates from Buchanan's landmark work, "An Economic Theory of Clubs." In this article, Buchanan challenges Samuelson's private/public goods division by indicating the existence of club goods. His article presented a formal model determining the optimal size of clubs.[13] In that same year, Olson published *The Logic of Collective Action* (1965). While Olson's main concern was collective action, he also discussed the importance of distinguishing between "inclusive" and "exclusive" groups.[14] However, Olson never used the term "club" and this aspect of his work did not receive attention. Prior to Buchanan, Tiebout (1956) developed the "vote with your feet" hypothesis which stresses the institutional aspects of what has come to be known as club theory. Tiebout hypothesized that if people have perfect information and mobility, then consumers will move to the local jurisdiction providing their preferred mix of services. In essence they are joining clubs. However, it was Buchanan's publication that spawned the extensive research into club theory (Cornes and Sandler, 1996).

For toll/club goods, the problems are different than for CPRs. Because toll/club goods are excludable, they do not have the free-rider problems of public goods and CPRs. However, the exclusion mechanism is important in devising institutional arrangements. I make a distinction between toll goods and club goods based on the exclusion mechanism. Club goods research uses the same term, club, to refer to both the good and the

[13] The term "club goods" actually refers to two different goods: toll and club. As will be more fully discussed in the next section, the two are distinguishable by the exclusion mechanism.

[14] Olson theorized that for industries or market groups producing private goods, the firm wants to keep new firms from entering (i.e. exclusive group) but the opposite is true for nonmarket groups producing collective goods (i.e., inclusive group). Olson attributes this to fixed versus variable supply (at a given price). In market arrangements there is a fixed supply which means that if one firm sells more then another firm must necessarily sell less. However, for collective goods there is variable supply. This means that an increase in the size of the group does not bring competition to anyone, but may lead to lower costs for those already in the group (1965:37). He uses the example of a lobbying organization: greater membership reduces the costs for everyone.

institutional arrangement. However, it is important to make the distinction between toll and club goods because of the implications for provision. Toll goods have discrete pricing (i.e., admission to a movie, entrance to a park, etc.) which means that consumers pay for every additional unit. However, purchasers of club goods receive a membership which then allows the purchaser access or use of the good. Purchasers of club goods do not reveal their preferences for a specific amount of units which makes pricing difficult for club goods. Some club researchers use the terms "coarse" and "fine" exclusion to refer to membership and fee/membership combination exclusion mechanisms (Lee, 1991). However, as will be more fully discussed below, the exclusion mechanism presents different provision problems and therefore different institutional solutions. Therefore, distinguishing between the two is necessary.[15]

Toll/club goods have the attribute of jointness in use similar to public goods, but there are important differences between them.[16] First, clubs are voluntary. For public goods, everyone within a domain is a recipient by definition. However, for club goods, individuals can choose to join a club or not to join any club. Cornes and Sandler refer to the former as a "partitioned club" and the latter as a "nonpartitioned club" (1996: 349). This is similar to the Tiebout model (1956) in which voters move to the local jurisdiction providing the quantity of services at a price that matches the voters' preferences. As long

[15]This distinction was first brought to my attention by Roger Parks. Discussions with Aseem Prakash led to further development of the distinction.

[16]This discussion draws heavily on Cornes and Sandler (1996). However, they do not make the distinction between exclusion and jointness in use. Therefore, my discussion discusses the characteristics remaining when exclusion is separated from jointness in use.

as there is mobility and perfect information, voters will select the jurisdiction most representative of their preferences. Similarly, consumers will choose the club arrangement that provides the good at their preferred price as long as there are sufficient arrangements to choose from and consumers have full information.

Second, crowding costs must be considered. Cornes and Sandler use the terms “crowding” and “congestion” interchangeably meaning that at or near capacity, “one user’s utilization of the club good decreases the benefits or the quality of service still available to the remaining users” (1996:348). For public goods, usage level does not affect the quantity of the good available to other users but for club goods concerns about overuse must be addressed. Third, members must first be distinguished (through the exclusion mechanism) and then they must determine the quantity of the shared good to be produced (Cornes and Sandler, 1996:351). This is similar to problems associated with flow as discussed for CPRs. For public goods only provision needs to be considered since everyone is a member and everyone uses the good. But, for toll/club goods, because of the exclusion mechanism we must consider the problems associated with provision and use. Fourth, whereas public good provision is typically associated with a suboptimal Nash equilibrium, club/toll goods can achieve Pareto-optimal results without resorting to government provision. They can do this because they can collect tolls through an exclusion mechanism (Cornes and Sandler, 1996:351). In sum, the excludability and jointness of use attributes of toll and club goods determine the types of problems for which the institutional arrangements need to solve.

Weisbrod's definition of collective good as one that "can be enjoyed by a number of people simultaneously" only addresses one axis: jointness of use. This axis encompasses both public goods and toll/club goods. However, in terms of institutional choice, making the distinction between public and toll/club goods has important consequences. For pure public goods, the theoretical foundation for the institutional choice of government provision is well founded in theory. However once we move from pure types and include toll/club goods and CPRs, institutional choice is more variable. For example, institutional arrangements for toll goods include private clubs that are owned and operated by their members, for-profit firms, or provided by local or central governments. Buchanan states, "the sharing arrangement need not be either co-operative or governmental in form. Since profit opportunities exist in all such situations, the emergence of profit seeking firms can be predicted in those settings where legal structures permit, and where this organizational form possesses relative advantages" (1965:7, footnote 1). In their review of the club goods literature, Cornes and Sandler find that, "... under ideal circumstances, any of a number of institutional forms can operate a club efficiently" (1996: 394). The Market/Government Failure Theory falters in being able to adequately explain for-profit production in mixed economies precisely because it does not make the exclusion distinction.

Based on this analysis, child care can be classified as a toll good as can nursing home care and some aspects of hospital services. Buyers pay a discrete amount for a specified amount of the good. Once it is purchased it is consumed jointly with others.[17] According to the literature on club arrangements, we should expect to find mixed economies for these industries. However, the issue of information asymmetry adds another dimension to the institutional solutions.

Nature of the Good and Asymmetric Information

In their theory of nonprofit institutional supply, Ben-ner and Van Hoomissen (1993) add asymmetric information to the attributes of excludability and rivalry as important variables affecting producer and consumer behavior.[18] They note that excludability, rivalry, and asymmetric information are not strictly intrinsic attributes of goods, but are affected by the variable circumstances under which they are transacted. For simplicity, they refer to excludability and rivalry as if they were attributes of goods and treat asymmetric information as an attribute of both goods and transactions (1993:34, footnote 6). Weimer and Vining (1992) make a finer distinction between information *as* a good and information asymmetry as information *about* a good's attributes. Information as a good is nonrivalrous (i.e., one person's consumption does not diminish another person's

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[17]Aspects of child care, nursing homes care, and hospital services are not consumed jointly. Food consumption, individualized care, a bed or child care "slot" are all aspects of the good that are consumed individually.

[18]Ben-ner and Van Hoomissen use the term "rival" to mean the extent that crowding affects the quality of provision (1993:33). As discussed above, I am using the term jointness in use to convey the extent that a good is jointly shared. A facility that is jointly used can be characterized by rivalry if it is near capacity or nonrivalry if it is utilized by few. The term rivalry refers to the use of the facility whereas jointness of use is a provision distinction.

consumption) therefore the critical issue is the difficulty of exclusion.[19] Weimer and Vining reserve the term information asymmetry for "information *about* a good's attributes as distributed between buyer and seller or between externality generator and affected party" (1992:69). For my purposes I adopt Weimer and Vining's approach although I substitute jointness of use for rivalry because of my emphasis on provision. Therefore, I refer to excludability and jointness in use as attributes of a good and information asymmetry as an attribute of the distribution of information about a good.[20]

This distinction is important for understanding market failure. Weimer and Vining examine the loss of social surplus due to information asymmetries. Depending on when consumers can determine the good's characteristics, Weimer and Vining define search, experience, and post-experience goods (1992:71). Consumers are able to ascertain the qualities of a "search good" prior to purchase (e.g., a chair). For "experience goods", consumers are not able to judge quality until consumption (e.g., meal in a restaurant). "Post-experience goods" are goods for which quality cannot be determined even after they have begun consumption. For post-experience goods, continued consumption does not necessarily reveal the quality to consumers. Purchasing post-experience goods

[19]Weimer and Vining use the term "rivalry" rather than "jointness in use." Their definition varies from Ben-ner and Van Hoomissen's because it focuses on whether one person's consumption reduces the consumption level of another. But similar to Ben-ner and Van Hoomissen's definition, the term rivalry has to do with use of the good rather than provision.

[20]Exclusion can be altered by technological and legal changes. This is most important for common pool resources. In the case of private, club and toll goods, exclusion is a function of the nature of the good itself. Technological advances and/or the legal system may alter the exclusion mechanism but exclusion is always possible.

necessarily involves uncertainty. Because the potential harm from low quality post-experience goods may not be revealed until significant time passage, if at all, the information asymmetry is substantial and will lead to decreased social surplus and market failure. The critical issue for post-experience goods centers on the success of secondary markets to decrease information asymmetry.

Child care has significant information asymmetry. For some aspects of child care it is a search good. The building and equipment are known before purchase. In other respects it is an experience good. Parents know whether their child has been fed by how hungry s/he is after leaving child care. However, child care is a post-experience good in that poor quality of care may never be detected even when the child reaches adulthood. The interaction between teacher and child is difficult for a parent to evaluate. The younger the child the more difficult it is for a parent to evaluate the quality of interaction. Given that children spend ten to twelve hours per day in child care, the information asymmetry associated with post-experience goods is an important issue to consider in institutional design.

Secondary markets arise in the market for goods to decrease information asymmetry between buyer and seller. These markets consist of third party actors and organizations who investigate sellers to increase the information available to potential buyers. Often these services are sold. These secondary markets are more prevalent when the goods are expensive, infrequently purchased and heterogeneous (Weimer and Vining, 1992). Secondary markets decrease information asymmetry for experience and post-experience goods. But persistent asymmetries may remain for post-experience goods because consumption alone does not perfectly reveal the true quality of the good. Therefore, Weimer and Vining conclude that we can expect some secondary market activity for post-experience goods but information asymmetries will persist. Given the information asymmetry associated with child care, secondary markets can be expected to decrease search costs for parents but they will play a limited role in helping them assess quality of care.

In sum, each of the theoretical approaches to explaining the origin and persistence of nonprofit organizations discussed above links the nature of the good to institutional form; for-profits are the institutional arrangements appropriate for private goods and nonprofit and public institutional arrangements are appropriate for collective goods and for private goods with information asymmetry. But, by making a finer distinction between different types of goods, we find that institutional choice for toll/club goods and CPRs is more variable. Empirically, mixed economies exist in many toll good industries and, interestingly enough, mixed economies also exist for toll goods with post-experience information asymmetry. According to Market/Government Failure Theory and Contract Failure Theory, we should expect high levels of nonprofit (and/or public) presence in industries for post-experience goods. While this occurs, it does not occur to an extent that theory predicts. For-profit firms not only are present in the child care, nursing home, and hospital industries, they are flourishing.

The Assumption Linking the Nondistribution Constraint to the Trustworthiness of Nonprofit Organizations

Some of the above theories predict that nonprofits will be the preferred alternative over for-profits for the purchase of goods for which quality is difficult to assess since the nondistribution constraint provides the consumer with protection and/or because it allows them voice in the organization. Therefore consumers will demand these types of goods from nonprofits because they think nonprofits are more *trustworthy* than for-profits. Critics of blanket assumptions based upon institutional form charge that reliance on the nondistribution constraint as a signal for trustworthiness may be misplaced. According to Contract Failure Theory, nonprofits should specialize in production of goods characterized by information asymmetry. However, we do not see nonprofits in the used car market, a good notorious for its information asymmetry (Akerloff, 1970). In addition, mixed economies exist in many industries with information asymmetries and have for long periods of time. Conversely, nonprofits exist in industries for which consumers can more easily evaluate the good such as ballet and opera companies. James and Rose-Ackerman (1986) note these inconsistencies and conclude that it is not clear on *a priori* grounds that the quality (or other output characteristics) of nonprofit services is more difficult to evaluate than the quality of for-profits since they are often produced in the same industries. They also conclude that it is not clear that nonprofits are uniformly *trusted* more than for-profits (James and Rose-Ackerman, 1986:22-23).

A second critique of relying on the nondistribution constraint as the primary factor affecting the choice of the nonprofit institutional form is that even though nonprofit managers are not legally (or ethically) supposed to distribute profits, this constraint can be overcome through higher salary levels and perquisites. Scandals over salary and perquisites at the PTL Ministries and United Way bear testament to the potential for using nonprofit status for personal benefit. Both Hansmann and Weisbrod mention this possibility but do not develop it. Hansmann argues that nonprofit organization is a second best option and that consumers are already in a poor position due to the information asymmetry associated with the nature of the good. He thereby dismisses the potential for exploitative behavior of the nonprofit firm. Easley and O'Hara (1986) theorize that under certain conditions, nonprofits are the optimal structure for producing goods with asymmetric information. However, optimal results depend on enforcing the nondistribution constraint. If the nonprofit manager is able to extract profits from the organization, the incentives differ little than a for-profit firm.

Krashinsky (1986) and Ben-Ner and Van Hoomissen (1993) both incorporate Hirschman's (1970) concept of voice with the nondistribution constraint as conditions for nonprofit trustworthiness, especially in cases where the purchaser is not the consumer. However, there is no reason to limit the use of voice to nonprofits. For-profits that are concerned with retaining customers have the incentive to listen to consumer concerns about the good or service, in spite of the information asymmetry problems associated with a post-experience good. It remains to be seen if empirically nonprofits facilitate greater purchaser or demand-side stakeholder voice than for-profits. It also remains to be seen exactly how producers of post-experience goods, such as child care, try to gain the trust of purchasers.

Before assuming a tight link between institutional form and trustworthy behavior, we need to understand the total rule environment. Recent empirical research linking institutional form with quality of services delivered has not been able to demonstrate significant quality variation between the sectors (Cost, Quality and Child Outcomes Study Team, 1995). The failure to link the nonprofit institutional form with quality may be due to a validity problem. It is unclear what exactly the classification of nonprofit and for-profit is measuring. Researchers rely on the nondistribution constraint and its assumed link with trustworthiness to predict higher quality service delivery by nonprofits. But they may be making a false assumption. We do not know if the assumed relationship between institutional form and behavior accurately portrays the incentive structure for all the variations of institutional arrangements included in the for-profit and nonprofit sectors. The absence or presence of a nondistribution constraint creates different incentives within which an organization produces and delivers services. But, there may be other rules that are important in determining the quality of goods produced and services delivered. What is needed is to determine the whole array of rules affecting service delivery. Perhaps there are certain rule configurations that are more likely to yield quality service delivery than others. And, perhaps these rule configurations cross sectoral lines.

Existing nonprofit theory has tended to place a variety of institutional forms in one nonprofit black box. But clearly, relying on the nondistributional constraint as the only institutional factor for justifying selection of the nonprofit form is insufficient. We need to understand the full set of rules governing particular institutional forms and how they affect service delivery. We may find that there is substantial variation in rules within institutional forms and that this intra-institutional variation may be more important for linking to quality of services than the classification into nonprofit and for-profit sectors.

Given the limitations of the nonprofit theories reviewed above, there is a real need to focus on some broad questions regarding the provision of toll goods with significant information asymmetries. In the rest of this dissertation, I will explore a series of research questions to better understand variation in entrepreneurial motivations across sectors and intra-sectoral variation of policy environments in the provision of such goods.

An Alternative Framework for Understanding Mixed Economies: the Institutional Analysis and Design Framework

To explore alternative rule environments, I utilize an analytical framework distinguishing between levels of rules developed by Kiser and Ostrom (1982). The Institutional Analysis and Design framework (IAD) is a tool for categorizing rules into analytically useful levels to determine influential variables. The IAD framework divides rules into three levels: operational, collective, and constitutional. Operational-choice rules directly influence outcomes, collective-choice rules create the policy environment, and, the constitutional-choice rules determine the overarching rule environment (i.e., who has the power to make rules about the rules). Each of these levels will be fully discussed below. However, it is important to note two features common to all three levels before delving into descriptions of the levels. First, in the IAD framework, the levels of rules are nested. Nesting means that the rule decisions determined at one level create the *rules*-

in-use at the next level. Thus, the operational-choice level rules are nested within the collective-choice level rules which are nested within the constitutional-choice level.

Second, at each level there is an *action situation*. This is an analytic concept that enables a researcher "to isolate the immediate structure affecting an action process" (Ostrom, 1986). For each decision there is an action situation. We can analyze the action situation by defining attributes of that situation, the *physical world*, and the *community*. The attributes of the situation include who are the participants and what are their roles, the actions they can take, the information available to participants, the costs and benefits assigned to outcomes and actions, and the number of times an action situation will be repeated (Ostrom, 1986: 462). Attributes of the physical world serve as limits to outcomes of action situations. For example, a child care center is a physical structure with a certain amount of indoor and outdoor space. The number of children to be served in a child care center is limited by the size of the building. Because child care is a good characterized by excludability, it allows owners or directors to limit entrance into the center. Attributes of the physical world vary in importance to the action situation depending on the good or service in question. For example, technological and legal constraints make it difficult to exclude a person from accessing fish in an ocean. This limitation of the physical world impacts the potential outcomes of an action situation. If it is difficult to physically prevent individuals from fishing, the rules-in-use and community attributes become more important factors in the action situation. Ostrom defines the attributes of the community as "norms of behavior generally accepted in the community, the level of common understanding potential participants share about the structure of particular types of action arenas, the extent of homogeneity in the preferences of those living in the community, and the distributions of resources among those affected" (1986: 472). Many researchers use the term "culture" to refer to the attributes of the community. The community is composed of all the parties affected by decisions taken on a particular action situation. For example, the community for a child care center would include the teachers and staff, the directors, parents, and children. By identifying the attributes of the action situation, we can describe its structure. By specifying the structure of the action situation we can then undertake comparisons across organizations. This analytical construct will be integral in this dissertation for comparing decisions made in nonprofit, for-profit, and public organizations. The three tiers of rules in the IAD framework are summarized in Figure 2-1. Each of the levels is discussed below as it applies to mixed economies. Research questions span the constitutional- and collective-choice levels. In Chapter Three these research questions will be applied specifically to the mixed economy of child care.

Constitutional-Choice Level

The most encompassing level of rules is at the constitutional-choice level. These rules establish the overarching framework for the other two levels. At the constitutional-choice level "the decision [is] made whether or not to constitute some form of association including who is a member, what are the initial operational rules to be followed and the procedures to be used in the future to make collective choices of the association" (Ostrom et al., 1994: footnote 8). It is at the constitutional-choice level that a decision is made to start an enterprise. Therefore, the choice about incorporating as a for-profit or a nonprofit is a constitutional-choice level decision. Existing theory assumes the mission of a for-profit enterprise is to maximize profit and the mission of the nonprofit is to fill an under served niche. According to Ben-ner and Van Hoomissen (1993), a nonprofit enterprise will be formed if some demand-side stakeholders find that the benefits of control outweigh its costs and if the net benefit is greater than that achieved by purchasing elsewhere. Weisbrod hypothesizes that nonprofits will be formed to serve under satisfied demand for collective goods. While he does not develop how institutional supply occurs, the assumption is that the entrepreneurs forming nonprofit enterprises are motivated by their desire to provide a service rather than financial gain. However, perhaps the motivation for entrepreneurs is more complex than has been previously assumed. Young (1983) asks, if nonprofits are not organized for profit, then for what purpose(s) are they organized? Young argues that definitions of entrepreneurship by economists are too narrow. As an alternative, he views nonprofit entrepreneurship "as an especially useful focal point for attempting to characterize a number of crucial aspects of organizational and sectoral behavior-- for example the extent to which growth, innovation, self-aggrandizing, quality-emphasizing, cost-inflating, socially responsive, market-dominating, or zealously missionary activity are exhibited, or not exhibited, by nonprofit organizations" (1983:37). While I agree with Young that we need to expand how we conceptualize nonprofit entrepreneurs, I see no reason why the expanded concept cannot be extended to for-profit entrepreneurs. It may be that the motivations of an entrepreneur forming a proprietary firm and a corporation are quite different. Similarly the motivations of entrepreneurs forming independent nonprofits as opposed to a nonprofit organized under the auspice of a larger organization may be quite different. The following research question explores the motivations of entrepreneurs across the for-profit and nonprofit sector:

> **Research Question 1: What are the motivations for entrepreneurs to establish for-profit and nonprofit enterprises?**[21]

[21]It is important to note that this research involves "commercial, entrepreneurial" nonprofits. This type of nonprofit is controlled by a self-perpetuating board rather than patrons and is funded primarily through fees. This type of nonprofit may yield a very different motivation than that of nonprofits controlled by patrons or nonprofits who receive their primary funding from either government or philanthropy. Therefore, research findings will be limited to commercial, entrepreneurial nonprofit enterprises.

Research Question 1 focuses on the decisions surrounding the formation of an enterprise. Research Question 2 addresses the results of the decision to form an organization as they manifest themselves in a *constitution*. Typically when we think of a constitution we think of a formal, written document. However, some constitutions are formal charters while others are verbal. All constitutions serve the purpose of creating a common understanding of how the organization will be governed and the purpose(s) of the organization. Regardless of whether the enterprise is for-profit, nonprofit, or public, each one has a constitution reflecting its governance structure.

For all enterprises, the governance structure determines: 1) who is a member and what are their responsibilities; and, 2) how and by whom policy will be made. Governance structures vary among for-profit proprietary, partnership, and corporate enterprises and independent and sponsored nonprofit enterprises. Each of these is explored below.

Sole proprietorships provide the owner with total decision making power and access to all residual profits. But, these powers come with a price: exposure to unlimited personal liability. If the business fails, creditors may be able to lay claim to the owner's personal assets as well as those of the business (Kane, 1998). Partnerships involve two or more owners. Formation of a partnership can be as simple as an oral understanding between two or more people or a more complex legal arrangement. As part of this agreement, partners decide upon the allocation of residual profits. A complication of partnerships is liability risk. Unless partners organize as a limited partnership, each partner can be found liable jointly or individually. In a limited partnership, a partner limits her/his participation in management in exchange for limited liability risk (Kane, 1998:12-3). Proprietary firms and partnerships are not required by law to have boards of directors. Owners make decisions regarding who can participate in important policy issues. They may decide that they will make decisions or they may create advisory boards or practice team management. Regardless, it is the owner(s) who devises rules about decision-making and these rules serve as a *de facto* constitution.

Corporations are either privately or publicly held.[22] In a private corporation, shares are held within a family or close associates. A board of directors is required but in some states the same individual can constitute owner(s), board, and officers. In a publicly traded corporation, shares are held by individuals who are not related in any other way to the firm. Since share holding is diffused, shareholders elect a board of directors. The board, in turn, appoints officers who manage the firm. Public corporations must have outside directors actors who are not employed by the company as officers or who own shares. In both public and private corporations, the board has complete discretion in deciding its compensation. Typically board members receive a flat fee for every meeting

[22]The rules of incorporation are governed by state laws. Some states allow one person corporations. In that case, no board of directors is required.

attended and a per annum fee. Some boards may also give themselves annual bonuses.[23]

Nonprofit enterprises have volunteer boards. An overriding responsibility of the nonprofit board is fiduciary. Unlike the governing board of a for-profit corporation, which is accountable to the owners or shareholders of the corporation, the governing board of the nonprofit is accountable to the larger public. In return for exemption from taxes and freedom from some governmental regulation, the organization is expected to serve the public benefit and its board is expected to function as guardian of the public interest. It is the board that is ultimately responsible for ensuring that the organization it governs fulfills its mission. The board also has the duty to conserve and protect the assets of the organization and to insure that it operates in accordance with the state and federal laws (Axelrod, 1994). The main difference between an independent and a sponsored nonprofit involves the composition of the board. For an independent nonprofit, the board is specifically focused on the operations of the nonprofit. But in a sponsored nonprofit, the interests of the sponsored entity are melded into the interests of the larger organization. Rather than having a board whose primary mission is to oversee the operations of the sponsored nonprofit, the board's primary mission is to oversee the larger parent organization. This research question examines the relationship between governance structure and policy decisions. The variation in

[23]I am indebted to Aseem Prakash for providing me with information via Daniel R. Kane on for-profit governance structures.

governance structures alters the incentive structure of the actors. The more careful classification by governance structure may provide a better explanation for the roles of for-profit and nonprofit enterprises in mixed economies.

Research Question 2A: Does classification by governance structure yield greater explanatory power for variation in adoption of quality enhancing policies than classification by sector?

Research Question 2A explores the explanatory power of governance structure for quality variation. Research Question 2B, determines the composition of the governance structure as it relates to the use of voice (Hirschman, 1970). The composition of the governance structure is an important rule affecting the participation of consumers or demand side stakeholders in organizational decision-making. Krashinsky (1986) and Ben-ner and Van Hoomissen (1993) combine voice with the nondistribution constraint to predict nonprofit trustworthiness. Yet it remains an empirical question whether nonprofits facilitate greater consumer/demand side stakeholder participation. The following research question explores the use of voice across sectors. Determining the composition of the governing body will reveal to what extent nonprofits facilitate consumer voice in the organization and if it is greater than consumer voice in for-profits.

Research Question 2B: Do nonprofit enterprises facilitate consumer voice to a greater extent than for-profit enterprises?

Understanding the constitution of the organization provides a richer rule environment from which to explore policy decision-making. There are a variety of governance structures within each of the nonprofit, for-profit, and public sectors and each governance structure creates a different rule environment at the collective-choice level. The most obvious constitutional level sectoral differences relate to distribution of surplus. For-profit enterprises are legally entitled to residual profits whereas nonprofit enterprises must reinvest all profits back into the enterprise.[24] Thus, the nondistribution constraint or its absence is an important constitutional rule governing the organization. But, it is only one rule among many.

Collective-Choice Level

The constitution and its enforcement, however configured, operate at a collective-choice level. Discrepancies between the constitution and rules-in-use are due to agency problems. Principal-agent problems exist in all situations where the principal (owner or board of directors) is separate from the agent (manager or director). Principal-agent costs arise when the agent does not act in the best interests of the principal. Jensen and Meckling state, "[t]he *principal* can limit divergences from his interests by establishing appropriate incentives for the agent and by incurring monitoring costs designed to limit the aberrant activities of the agent" (1986: 212, emphasis in the original). For proprietary enterprises often the owner functions as the manager. If that is the case, there is no principal-agent

[24]Public enterprises typically have a budget and are required to work within the budget. If there is a surplus, the distribution of it depends upon the rules binding the organization. If it is a "spend down" budgeting system then remaining budget allocations will be "lost" at the end of the fiscal year. Other budgeting systems may allow a public enterprise to carry budget surpluses to the following fiscal year.

problem at the collective-choice level.[25] Since for-profit corporations, nonprofits, and public enterprises have governing boards and managers, they all have principal-agent problems. The governance structure determines which actors are involved in policy decisions. The degree to which principals are involved in these policy decisions directly influences the scope of the agent's decision- making power.

External monitoring and enforcement of the constitution affect how well the constitutional rules are actually followed at the collective-choice level. For example, nonprofits are not legally supposed to redistribute profits. But, if the Internal Revenue Service does not enforce the nondistribution constraint, it is possible to have for-profits in disguise as nonprofits. Lapses in monitoring and enforcement within the organization can arise due to agency costs associated with the governance structure. Insufficient investment in monitoring and enforcement may result due to principal-agent problems between the board of directors or owners and managers. The oversight principals exercise are reflected in transaction costs. For those principals concerned with the policy environment of the organization, which creates the incentive structure at the operational-choice level and thus outcomes, we can expect high transaction costs due to monitoring and enforcement. The following research question explores the relationship between governance structure, agency costs, and transaction costs.

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[25]While some proprietary firms may not have principal-agent problems at the collective-choice level, all enterprises have principal-agent problems at the operational-choice level between the managers and employees.

Research Question 3: Is there a relationship between governance structure, transaction costs, and adoption of quality enhancing policies?

The *rules-in-use* determine who is involved and the respective roles of actors for different collective-choice level action situations. These action situations are where policy decisions are made. Depending on the policy issue at hand, there will be different actors involved, benefits and cost weighed, information levels, etc. As previously discussed, the interaction of the rules-in-use, physical world, and attributes of the community define the structure of the action situation. The outcomes of action situations at the collective-choice level are policies. To understand policy decisions, we must define the action situation for each policy area. We can then compare action situations across enterprises to determine the variables affecting policy decisions. This research question supplies the missing link in previous nonprofit research: it defines the factors influencing organizational decision making.

Research Question 4: How do rules-in-use, physical world, and attributes of the community affect the adoption of quality enhancing policies?

Just as at the constitutional-choice level, monitoring and enforcement affects whether the policies adopted at the collective-choice level are actually followed at the operational-choice level. Monitoring and enforcement are transaction costs incurred both internally and externally by the organization. External monitoring and enforcement may take the form of state regulatory standards. Regular inspections to monitor compliance result in the granting of a state license to operate. Internal monitoring mechanisms may include performance review, observation, or institutionalization of standard operating procedures. Monitoring and enforcement transaction costs can be viewed as tools for assuring compliance with policies.

Understanding the policy process is critical to analysis of outcomes. This is because the policy decisions at the collective-choice level set the incentives within which actors make decisions at the operational-choice level. Previous research jumps from constitutional level rules to outcomes. But, by mapping out the action situation at the collective-choice level, it provides the intermediate rule environment and makes it possible to join constitutional rules to outcomes at the operational-level.

Operational-Choice Level

In the day-to-day operations of an enterprise, operational-choice action situations result in outcomes. These outcomes are goods produced or services delivered. Since services are delivered and goods are produced at the operational-level, it is the level where quality is determined. Similar to the constitutional and collective levels, action situations are affected by the rules in use, the physical world, and attributes of the community. The extent to which each of these influences outcomes depends upon the structure of the action situation. For example, a child care center with physical attributes that would lead parents to believe the center produces high quality care (e.g., colorful, spacious building with well maintained play equipment) may produce low quality care because of hiring policies. The center may cut costs by hiring inexperienced, low wage teachers which lowers the quality of care provided. In this case, the hiring policy aspect of the rules-in-use overpowers the positive contribution of the physical attributes to produce the outcome of low quality child care.

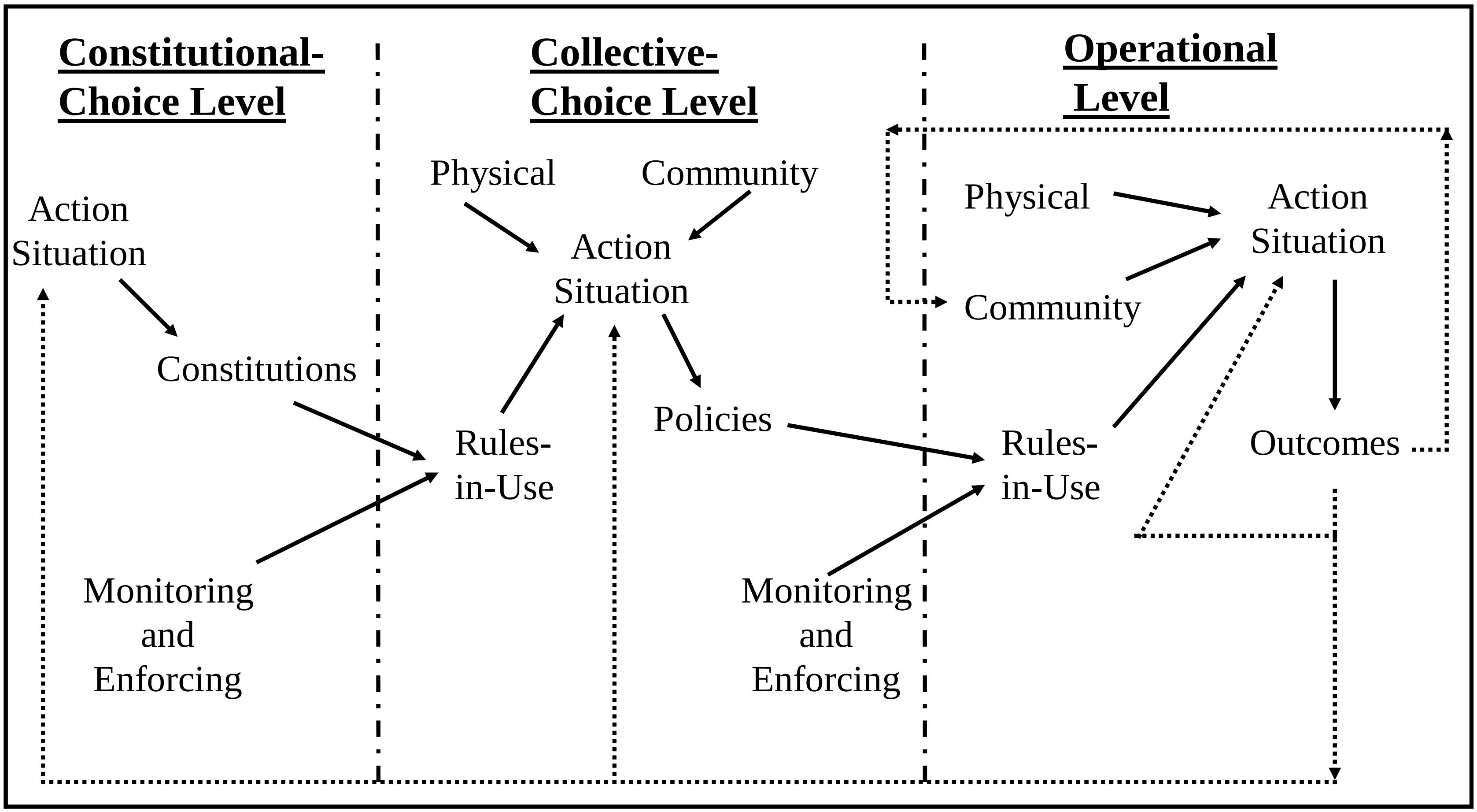
This dissertation examines the rule environments at the constitutional and collective-choice levels across sectors to better understand the mixed economy for child care. Figure 2-1 summarizes the relationship of the three levels. As will be discussed in the next chapter, previous child care research has been limited to the operational-choice level. And, nonprofit research jumps from the constitutional to the operational-choice level. By examining the collective-choice level decision-making processes this dissertation focuses specifically on the level of rules ignored in previous research.

Conclusion

As discussed in this chapter, the distribution of surplus has been the primary explanatory variable for selecting the nonprofit as the appropriate institutional form for certain types of goods. Using the IAD framework, it becomes clear that the gap between theory and empirical reality is partly due to the reduction of institutional form to one rule. As elaborated above, the constitutional-choice level encompasses far more than the distribution of surplus. It determines the constitution for the enterprise which then guides policy decisions. Identifying constitutional rules enables us to understand the incentives structure for policy-making within the enterprise. By understanding the process that leads some enterprises to adopt quality enhancing policies and others to adopt quality detracting policies, it is possible to determine critical constitutional variables and attributes of collective-choice action situations.

Existing theory jumps from institutional form (a constitutional-choice level decision) to trustworthy behavior (the outcome of an operational-choice level action situation) without considering how collective-choice rules impact the operational-choice level. The outcome of the incentive structure for policy in turn creates the incentive structure for service delivery. By dividing rules into three levels, we can begin to talk about incentive structures. Varying rules at the collective-choice level will impact the incentive structures at the operational-choice level, which will ultimately affect outcomes. The variation in rules possible at the collective choice level is determined by the constraints at the constitutional-choice level. We do not have adequate theoretical or empirical understanding of how variations in institutional arrangements affect quality of service delivered. This research seeks to advance nonprofit theory and to provide direction for policies governing mixed economies. In the following chapter the research questions presented above will be developed into hypotheses to be tested through an empirical investigation of child care centers.

FIGURE 2-1: THE INSTITUTIONAL ANALYSIS AND DESIGN FRAMEWORK



(Source: Ostrom, Gardner and Walker, 1994. Rules, Games and Common Property Resources. Ann Arbor: University of Michigan Press: 47)

Chapter 3
The Institutional Analysis and Design Framework
Applied to the Mixed Economy of Child Care

Introduction

To apply the Institutional Analysis and Design (IAD) Framework to the mixed economy for child care, we begin with the assumption that in the market for services all organizations have the potential for producing high quality services, but they also have the potential for exploiting purchasers. All organizations are assumed to try to decrease transaction costs associated with purchaser uncertainty. There is no *a priori* assumption of trustworthiness. The emphasis is on identifying the incentive structure(s) most likely to lead to positive policies. As discussed in Chapter Two, existing theory jumps from the constitutional-choice level decision of institutional form to predict the operational-choice level outcome of trustworthy behavior. What is missing is an examination of the rules at the collective-choice level. Rules at this intervening level are critical in creating the incentive structure within which actors make policy decisions affecting day-to-day operations which in turn generate outcomes. For example, the interaction between the teacher and the child at the operational level is governed by the classroom rules-in-use. The classroom rules-in-use are determined by the policy decisions made at the collective-choice action situation and the extent to which monitoring and enforcement govern their implementation. Those collective-choice level policy decisions are influenced by the rules-in-use at the constitutional-choice level.[1]

[1] The rules-in-use used in a particular firm are also affected by exogenous factors including rules established for an entire state. For example, a child care center's policy for staff/child ratios is affected by the state child care regulations. These regulations are exogenous, meaning that the child care center cannot alter them.

This dissertation focuses on the constitutional- and collective-choice rule environments of firms to explore the relationship between institutional form and the adoption of quality enhancing policies. The adoption of these policies will affect decision-making at the operational-choice level. While I analyze the likely effects of these rules at an operational-choice level, I do not collect data about this level of action. As is discussed below, previous studies of child care utilize quality measures that only address the operational level. One problem with focusing only on the operational-choice level is that, while we may be able to accurately measure child care quality at a specific time, we cannot know if the quality is maintained over time. To overcome this limitation, this research focuses on identifying the collective-choice level rule environments that are likely to produce an incentive structure leading to the outcome of quality service delivery. If we can evaluate child care centers depending upon how well collective-choice policy environments encourage the probability of producing quality (within a cost constraint), then we can have greater confidence, assuming good monitoring and enforcement, that quality will be maintained over time. That is not to say that outcome measures are not needed. Given the prior focus on these measures alone, however, there is a gap in our knowledge of what factors are associated with policy decisions that are intended to increase the quality of care. The IAD framework recognizes the nested relationships between the three levels of analysis and their combined potential for influencing outcomes. Prior empirical work has already shown a lack of a direct relationship between constitutional-choice and outcomes. Thus, I have decided to focus my attention on the poorly understood intermediary processes rather than do one more study of the operational level.

This chapter discusses how variables relate to each of the research questions presented in Chapter Two. Each of the questions is discussed below and applied to the child care industry. Hypotheses follow the discussion for each research question.

Research Question 1: What are the motivations for entrepreneurs to establish for-profit and nonprofit enterprises?

The nonprofit theories examined in the previous chapter make assumptions about the motivations of the entrepreneurs forming for-profit and nonprofit enterprises. According to Market/Government Failure Theory, individuals form nonprofit organizations to supply collective goods underproduced in the economy. It is commonly assumed that for-profit entrepreneurs establish new businesses to maximize profit (Ben-ner, 1982). But, what if the choice is more complex? What if individuals start for-profit enterprises, such as a proprietary child care center, because they do not have the funds or expertise to set up a nonprofit enterprise? What if individuals start nonprofit enterprises because it limits their personal liability or because it provides tax advantages? To address this research question, I will explore the motivations of individuals starting child care centers. If we assume that individuals weigh the benefits and costs of a course of action before making a decision, then it is important to know what variables enter into that calculation. If decisions are more complicated than previously assumed, then we can expect significant variation within each sector. Some for-profits may not maximize profits while some nonprofits may have "profit" as their main objective. Nonprofit theories link the institutional choice of for-profit, nonprofit, and public enterprises to trustworthy behavior. However, if there are for-profits in disguise as nonprofits then a blanket assumption will not hold true across all nonprofits.

According to the theories discussed in the previous chapter, if all nonprofits are trustworthy and all for-profits maximize profit (at the expense of quality) then we would expect to find quality differences divided along sector lines. As discussed in Chapter One, child care research has not, however, been able to consistently link quality to the sector of an enterprise. I hypothesize that this is partly due to significant intra-sectoral variability in entrepreneurial motivations. I do not expect entrepreneurial motivations to divide cleanly along for-profit/nonprofit lines. Rather, I expect to find a variety of motivations within each sector. Through interviews of entrepreneurs, centers are grouped by their entrepreneurial motivations.[2] Variation in motivations may help to explain intra-sectoral quality variation.

> *Hypothesis 1: There is significant intra-sectoral variability in entrepreneurial motivations in the founding of for-profit and nonprofit enterprises.*

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Research Question 2A:
Does classification by governance structure yield greater explanatory power for variation in adoption of quality enhancing policies than classification by sector?

As described above, empirical variations in child care quality have not been explained by sector. However, governance structure may provide a better classification for explaining quality variation. This research question classifies centers by their governance structures according to the following categories: proprietary/partnership for-

[2]Data collection will be discussed in Chapter 4.

profit, private for-profit corporation, public for-profit corporation, independent nonprofit and sponsored nonprofit. Each of these categories will be explored to determine variations in adoption of quality enhancing policies within each category. It may be necessary to create additional categories within governance structures. For example, it may be necessary to divide large centers from small or single locations from chains. We can expect that enterprises with multiple locations will need different administrative systems than enterprises with single locations. Similarly, large centers will have more extensive administrative systems than small centers. Previous research classifies centers into for-profit and nonprofit. More careful classification based upon the heterogeneity within each of the sectors may better explain variation in quality. To test the following hypothesis, centers are grouped both by governance structure and by sector and then compared for their performance in quality enhancing policies (described in Research Question 4).

> *Hypothesis 2A: Grouping by governance structure demonstrates less variability in adoption of quality enhancing policies than grouping by sector.*

Research Question 2B:
Do nonprofit enterprises facilitate consumer voice to a greater extent than for-profit enterprises?

Krashinsky (1986) and Ben-ner and Van Hoomissen (1993) link the nonprofit institutional form to greater trustworthiness based upon the nondistribution constraint and an assumption that the nonprofit form facilitates greater purchaser/demand-side stakeholder voice. Ben-ner and Van Hoomissen's use of the term "demand-side stakeholders" includes every nonprofit because all nonprofits are required to have boards of directors. But, Krashinsky focuses exclusively on consumer or purchaser voice. For my purposes I will limit operationalization of this question to purchaser (i.e., parental) voice because it is this group of stakeholders who have a vested interest in monitoring.

The composition of the governance structure determines the extent of purchaser (i.e., parent) participation in policy decisions. Contrary to nonprofit theorists, I do not expect to find parental use of voice greater in the nonprofit sector than the for-profit sector. I do expect to find that those centers with greater quality enhancing policies, both for-profit and nonprofit, will encourage parental voice in policy decisions. For this research question, the primary focus centers on the extent parents are able to have input into setting policies affecting quality. Centers will be grouped by sector and by governance structure to determine whether either is predictive of greater purchaser voice in policy decisions.

> *Hypothesis 2B: Parental use of voice in policy decisions occurs in both the nonprofit and for-profit sector.*

Research Question 3: Is there a relationship between governance structure, transaction costs, and adoption of quality enhancing policies?

This research question involves both constitutional-and collective-choice level rules. The constitutional-choice level decision to incorporate as a nonprofit, start a for-profit corporation or a private for-profit enterprise determines the fundamental governance structure. Nonprofits and for-profit corporations are legally required to be governed by boards of directors. Proprietary and partnerships are governed by the owners. Each governance structure has a potential for agency costs. Governance structures with boards and off-site owners have a high potential for agency costs. In these cases there is a greater potential for agents to make decisions in their own best interests rather than the best interest of the principals. On-site owners have a lower potential for agency costs and if the owner is also the director then the agency costs (at the collective-choice level) can be zero.

The monitoring and enforcement exercised by principals over agents can either exacerbate or diminish the actual agency costs. The extent of monitoring and enforcement combined with the potential for agency costs create the incentive structure for agents. Monitoring and enforcement are transaction costs incurred by principals to assure that agents are implementing the preferences of the principals. For those governance structures with a high potential for agency costs, we would expect principals to incur greater transaction costs to assure policy decisions are made according to their preferences. The greater the transaction costs between principal and agents, the less the potential for agency costs will result in actual agency problems. Therefore, in governance structures with the potential for high agency costs, we should find a greater level of transaction costs.

For this research question, the main focus is agency costs associated with quality enhancing policies. There are other agency costs such as principals monitoring agents to assure maximization of profit. However, for this research, I am particularly interested in monitoring systems for quality assurance. If principals are not concerned about quality related agency costs, then we would not expect a direct relationship between agency costs and transaction costs. When principals are not concerned about quality-related agency costs, the governing board specified in the constitution may rarely or never meet. I refer to this as a *paper board.* In this scenario, the director (agent) has high autonomy in making all policy decisions and the incentive structure is more akin to a proprietary governance structure. In other cases, the board may meet regularly but the scope of the board's activities involves financial issues such as fund-raising or long-range planning rather than approval of quality enhancing policies. In this situation, if the director has autonomy in making decisions regarding quality enhancing policies the incentive structure again is similar to a proprietary governance structure. For boards that are involved in policy decisions affecting quality, the degree of agent autonomy varies depending on whether the board "rubber stamps" the director's decisions or if there is meaningful debate. I hypothesize that for those governance structures associated with the potential for high agency costs, centers concerned with quality will devise monitoring mechanisms (incur transaction costs) to decrease agency costs. To test this hypothesis, child care centers are classified by governance structure and the potential for agency costs. For those with high potential agency costs, they are then analyzed for the degree of transaction costs incurred. The centers are then grouped by transaction costs and analyzed for their adoption of quality enhancing policies (to be discussed in Research Question 4).

> *Hypothesis 3: Centers with governance structures associated with the potential for high agency costs and who are also concerned with quality will devise monitoring mechanisms (incur transaction costs) to decrease agency costs.*

Research Question 4:
How do rules-in-use, physical world, and attributes of the community affect the adoption of quality enhancing policies?

At the collective-choice level, policy decisions are made that create the incentive structure within which child care services are delivered. Therefore, whether policies enhance quality or detract from quality are determined at the collective-choice level. This research question explores the variables affecting the adoption of quality enhancing policies and compares them across governance structures. In this section, I will first discuss five policy areas creating the incentive structure at the operational-choice level for delivering quality child care. These five quality enhancing policies (summarized in Table 3-2) include: incentives to recruit and retain skilled teachers, teacher/child ratios and group size, curriculum, parental involvement, and accreditation. Second, I will identify the variables constituting the collective choice action situation. These variables are divided into the three components of an action situation: rules-in-use, physical world, and attributes of the community (summarized in Table 3-3).

Quality Enhancing Policies

Child care outcomes are measured at the operational level and it is this level that has received most of the previous attention of child care researchers. Zaslow (1991) groups quality measures into three categories: structural, summary, and interactive. A structural quality measure assesses rules-in-use such as staff/child ratio and group size. An example of a structural approach to quality is the National Day Care Study (Ruopp et al., 1979). In the late 1970s the Federal government financed the study to determine what constitutes quality child care. Researchers found that staff/child ratio was an important component of quality for infant and toddler care, but that group size and teacher training were more critical than staff/child ratio in center-based programs for preschoolers (Phillips and Howes, 1987 citing Ruopp et al., 1979).

The second category, summary measures, combine scores on groups of quality measures to assign an overall quality measure. One summary technique widely utilized is the Early Childhood Environment Rating Scale (ECERS) and the Infant Toddler Environment Rating Scale (ITERS) (Harms et al., 1980; Harms and Clifford, 1991). These are tests utilizing trained early childhood evaluators to conduct participant observation in classrooms. ECERS and ITERS sum seven dimensions of quality to yield an overall quality measure.[3]

The third category, interactive measures, focuses on the caregiver/child interaction.[4] For example, the Caregiver Interaction Scale (Arnett, 1989) measures the lead teacher's sensitivity, harshness, degree of attachment, and permissiveness. A second example is the Teacher Involvement Scale (Howes and Stewart, 1987) which measures the amount and quality of teacher-child interaction.

All of these measures are at the operational-choice level of analysis. The structural measures focus on the operational rules-in-use resulting from collective-choice

[3]The seven dimensions include: 1) personal care, 2) creative activities, 3) language/reasoning activities, 4) furnishings/display, 5) fine/gross motor activities, 6) social development, and 7) adult facilities/opportunities.

[4]Researchers use the terms "caregiver" and "teacher" to refer to child care workers. The term "caregiver" is the most encompassing and includes all classroom child care workers. The term "teacher" typically is reserved for those child care workers leading a class.

level policy decisions. Summary quality measures assess the operational level physical world, attributes of the community, and some rules-in-use. The interactive approaches measure patterns of interaction of the operational-choice level action situations. Translating approaches to quality in this way reveals the interconnectedness of these measures: The policies adopted at the collective-choice level become the rules-in-use (structural measures) in classroom governance;[5] the rules-in-use combined with the physical world and attributes of the community (summary measures) affect the action situation to produce patterns of interaction (interactive measures).

As discussed above, this dissertation focuses on the relationship between constitutional- and collective-choice levels. Given the previous research at the operational-choice level, this research focuses instead on the policy environment within child care centers. I assume that centers with policies to attract and retain skilled teachers, lower staff/child ratios and group sizes, offer a developmentally appropriate curriculum, encourage parental involvement, and pursue accreditation are more likely to deliver quality child care services. Each of these five policy areas, discussed below, are utilized in Research Questions 2A, 3, and 4.

Incentives to Recruit and Retain Skilled Teachers

Experience, education, and training are often used as indicators of teacher competence. Existing research finds that specialized training is associated with good quality care (Howes, 1983; Stallings and Porter, 1980; Arnett, 1987). But, Phillips and

[5] Rules-in-use are also affected by monitoring and enforcement.

Howes note the content and extent of the training needed for teachers to produce these outcomes are virtually unexplored (1987). They also note that research has not distinguished between the value of education, training, and experience at different levels of child care staff, such as the director of the center, the classroom teachers, and the teacher assistants. The National Association for the Education of Young Children advocates college-level specialized preparation in early childhood education/child development for all teachers (Bredekamp, 1993:14). In terms of policies enhancing quality, we can examine to what extent child care centers seek to hire teachers with experience and education. Centers can be ranked based upon the education and experience of their teachers in the following way: Low (centers that hire people with no experience or early childhood education), Medium (centers that hire people with either some experience or community college training in early childhood), High (centers that hire degreed people with experience).

We do know that staff turnover negatively affects child care quality which in turn negatively affects child development. Whitebook et al. (1989) found that higher staff turnover rates in child care centers were predictive of lower scores on a measure of children’s language development. We also know that children form attachments to their teachers and when teachers leave it is disruptive to the children (Phillips and Howes, 1987). Therefore, there is no question that turnover is an important quality factor. But, child care is a low wage industry and it can be difficult to retain teachers. For this reason, child care centers that adopt policies to retain teachers can positively impact quality by decreasing turnover. In a review of the literature examining characteristics of teachers and administrators in child care programs, Bloom concludes, "... that teachers' wages, their education and specialized training, and the adequacy of their working conditions are critical determinants of program quality (1996: 303). The National Child Care Staffing Study concluded, "by failing to meet the needs of the adults who work in child care, we are threatening not only their well-being, but that of the children in their care" (Whitebook, Howes, and Phillips, 1989:3). Those centers striving to retain teachers may still have high turnover due to overall labor market pressures. But, since all centers face the same external labor market, we can expect those centers striving to retain teachers are more successful in doing so. Policies indicating a strategy for teacher retention include wage rates and benefits. Centers that pay minimum or near minimum wage are more likely to have high turnover than those centers paying higher wages. Wage rate data was collected for entry level teachers.[6] Benefits packages to retain teachers can be categorized based upon the presence and absence of the following perquisites: affordable health insurance, paid leave, and continuing education. There are four categories: none (no health insurance, paid leave, or continuing education), poor (offer one perquisite), good (offer two perquisites), excellent (offer all perquisites).

Teacher/Child Ratios and Group Size

The number of children per teacher is another important indicator of quality. Since each teacher can be engaged with a limited number of children at any given time, as the size of the group increases, the less the teacher is able to engage with each child.

[6]Data was collected from each center. The centers were sorted by state and then ranked according to the wage position. For a more detailed description of the data see Chapter 5.

Research indicates that smaller groups facilitate constructive teacher behavior and positive developmental outcomes for children (Phillips and Howes, 1987). However, while significant research supports this finding, a study by Clark-Stewart and Gruber (1984) found that large enrollments may have positive as well as negative consequences. They found that children in large classes were more knowledgeable about the stranger's social perspective and less likely to behave negatively with an unfamiliar peer. But, they also found children in classes with large enrollments were less sociable and cooperative with strangers, especially unfamiliar peers, than children in child care settings with small enrollments. Therefore, they concluded that the effect of group size is complex.

In spite of this inconclusive research, the National Association for The Education of Young Children (NAEYC) publishes developmentally appropriate practices for early childhood programs (Bredekamp, 1993). NAEYC is the nationally recognized authority in child development. In its guidelines, it recommends the following ratios and group sizes:

Age	Ratio	Group Size
Infants	1:3	Small enough to allow for one to one interaction. Babies relate to the same, very few people each day.
Toddlers	1:6	Recommends a maximum group size of 12 with consistent staffing.
3 years	1:7 - 1:10	Recommends a group size no larger than double (i.e., 14 if 1:7). Ratio level depends on the developmental stage of the children. If young 3s then 1:7; if older 3s then ratio can be larger.
4 & 5 years	1:10	Maximum size of 20.

There is substantial variation across states in setting teacher/child ratios and group size. For example, California's required ratio for 4 and 5 year olds is 1:12 whereas North Carolina's is 1:20.[7] All states regulate teacher/child care ratios in child care centers but many states do not regulate maximum group size.

We can expect that those centers concerned about quality will strive to lower ratios and group sizes to come closer to NAEYC's guidelines. However, the higher the state mandated ratios (and group size, if regulated), the greater the relative cost for a center to set their ratios and group size to NAEYC standards. This is because lowering ratios (decreasing the number of children per teacher) will increase costs relative to surrounding centers. For centers in California, complying with NAEYC standards would not require similar cost increases at the margin as in North Carolina because California's ratios are already low (which means that California has higher standards). For this reason, using ratios as a quality indicator across states needs to factor in the relative cost of lowering ratios. A North Carolina center maintaining NAEYC ratios increases costs (as compared to surrounding centers) to a greater degree than a center in California with NAEYC ratios. For comparison purposes, centers are divided into those operating in low (i.e., higher ratios) and high (i.e., lower ratios) regulatory environments. The centers are then assessed by determining the extent to which centers maintain ratios *at* state levels, *above* state levels (better) or whether they maintain *NAEYC* ratios (best). Those centers surpassing state levels can be assumed to have a policy that enhances quality.

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[7] North Carolina has a two-tiered licensing system. The 1:20 ratio is for the less stringent "A" license.

Curriculum

Developmentally appropriate curriculum must be both age-appropriate and individually appropriate (Bredekamp, 1993). Planning a program that is age appropriate means that all decisions are guided by an understanding of normal sequences of growth typical of children within a given age group. It encompasses all areas of development including social, emotional, cognitive, and physical. The curriculum must also be individually appropriate, for each child is a unique person with his or her own temperament, interests, learning styles, and cultural background (Dodge, 1997). There are many approaches to early childhood development, especially at the preschool age (e.g., Montessori, Reggio Emilia, Piaget, etc.). Given this diversity, the emphasis for this policy is on determining the educational level of the person designing the curriculum. Research indicates that the more early childhood education the better informed curriculum choices will be regarding developmentally appropriate practices. NAEYC recommends specialized training in early childhood/child development. Therefore, we can assume that the greater the educational background and experience of those persons responsible for setting the curriculum, the greater the potential for designing a developmentally appropriate curriculum. This policy area measures the education level of those responsible for setting the curriculum. Curriculum designers will be grouped by their educational level (no training, some training, bachelors degree with early childhood specialization, graduate degree).

Parental Involvement

Research indicates a large gulf between parents and early childhood experts when it comes to assessing quality (Larner and Phillips, 1994). For this reason, child care centers that are delivering quality child care will have an interest in developing policies geared towards parent education. Research also indicates that greater efforts to bridge home and center, leads to more consistency for children. Therefore, I expect centers concerned with quality to expect greater involvement of parents.

Research Question 3 above explores parental involvement in center policy decisions. In Research Question 4, parental involvement is a broader policy area. The scope of parental involvement expands from voice in policy decisions to the full array of center policies regarding parental involvement. There are many ways for parents to be involved with the center in addition to opportunities to participate on the board of directors or a parent advisory board. They can assist in fundraising for the center, volunteer in the classroom and for special events, or volunteer their labor for capital improvements to the center. Those centers with policies integrating parents into the center are assumed to place greater emphasis on quality than those centers without such policies. To operationalize this policy area, centers are ranked based upon the degree of parental integration (none, low medium, high).

Accreditation

Since 1985 the National Association for The Education of Young Children (NAEYC) has been accrediting child care centers of all types (nonprofit, for-profit and public). The accreditation process involves three steps: a self-study by the directors, teachers, and parents; an on-site validation visit by specially trained evaluators; and the accreditation decision by a commission of nationally recognized early childhood professionals (Bredekamp, 1989:2). NAEYC accreditation is valid for three years and addresses ten components of an early childhood program: interactions among staff and children, curriculum, staff-parent interactions, staff qualifications and development, administration, staffing, physical environment, health and safety, nutrition and foodservice, and evaluation (Bredekamp, 1989:2).

Research indicates that there are significant differences in the quality of work life for staff in accredited and nonaccredited centers. Accredited centers were found to have higher job commitment, lower staff turnover, greater compatibility between teachers' current and desired levels of decision-making influence, and greater innovativeness, goal consensus, opportunities for professional growth, and clarity (Bloom, 1996). While this bodes well for turnover rates, linking accreditation with quality is more problematic. Both the National Child Care Staffing Study (Whitebook et al., 1989) and The Cost, Quality, and Child Outcomes in Child Care Center Study (Cost, Quality, and Outcomes Study Team, 1995) found that high-quality centers were more likely to be accredited but that when compared to other high quality centers, other groupings of centers such as publicly operated programs and work-site programs yielded higher quality of services.[8] What accreditation does tell us is that the directors and staff are concerned enough about quality to undertake a long (and relatively costly) process of self evaluation. It signals a self awareness and knowledge about what quality is and about the steps to attain it. If a

[8]There are some data problems with this finding because some of the higher quality centers counted as publicly operated or work-site programs were also accredited.

center is accredited, it is more likely that it will provide quality services, but it is not a guarantee. For this policy area, accreditation reveals awareness of quality. Centers may have good reasons for not pursuing accreditation. But, if the director/owner is knowledgeable about the process, it signals an awareness of the components of a quality program and a greater potential for implementing a quality program than directors who do not have knowledge of the accreditation process. To operationalize this policy area, center directors/owners are queried about their knowledge of the accreditation process. Based upon their answers, centers are classified into three groups: accredited, nonaccredited but knowledgeable, nonaccredited and not knowledgeable.

These five policy areas collectively produce an incentive structure affecting quality outcomes. Now that these policies have been identified, the next step is to understand the variables influencing their adoption. In the section below, I present variables affecting policy action situations. The variables are sorted into the three components of an action situation: rules-in-use, physical world, and attributes of the community.

Variables Affecting the Adoption of Quality Enhancing Policies

The primary interest of Research Question 4 is explaining the adoption of the five quality enhancing policies described above. This section identifies the variables that are likely to affect their adoption. The rules-in-use, physical world, and attributes of the community define the action situations leading to policy decisions. Each of these components of action situations are discussed below in relation to adoption of quality enhancing policies.

Rules-in-Use

Rules-in-use can be divided into internal and external. Internal rules-in-use are those rules that are endogenous to the center and can be changed by center actors. Research Question 3 addresses the internal rules-in-use through analysis of the implementation of the governance structure and related costs. External rules-in-use are exogenous to the center. These rules are determined by forces outside of the center and include the state regulatory environment and child care funding.

There are two variables of particular interest creating external rules-in-use for child care centers: regulation and funding. Child care regulation is a state level responsibility. The history of U.S. child care regulation is such that it is considered a social welfare responsibility rather than educational responsibility (Zigler and Lang, 1991). Given that history, child care regulations are geared more towards health and safety than to educational environment. Through inspections, typically annually, child care centers are licensed. Licensing standards establish a basic floor of quality rather than a model of high quality early childhood education (Morgan, 1985). Licensing focuses on aspects of child care such as staff/child ratios, teacher training, immunization record requirements, building safety and cleanliness which are all easily evaluated through inspections. Regulations such as staff/child ratios and teacher training requirements reflect some concern for the social, physical, emotional, and intellectual development of children. But, the primary emphasis of state child care regulations focuses on health and safety.

State regulations vary considerably both in scope and exemptions. Many states exempt part-day programs from licensing and some states exempt church-based programs from some or all licensing requirements. Typically, the state department of social services administers the regulations and local governments are responsible for fire and health inspections and enforcing building codes. Some states contract with the counties to enforce state licensing regulations for segments of the child care industry (e.g., day-care homes). Many states have general requirements for curriculum such as requiring each day that children have opportunities to experience gross motor development, dramatic play, manipulatives, nap times, etc. But, child care workers have total discretion in how they implement those general requirements. Thus, the state regulatory environment creates an incentive structure that affects child care center policymaking. But, it only affects policymaking for those policy areas included in the licensing regulations. We can expect state regulatory environment to affect policymaking for teacher/child ratios (and group size, if applicable). They may also affect hiring practices if the state mandates minimum teacher qualification levels.[9] But we can not expect regulatory environment to positively influence curriculum, parental involvement, or accreditation (unless state regulations extend to those policy areas).

For those child care centers operating in high state regulatory environments, I expect to find greater adoption of quality enhancing policies than those operating in low state regulatory environments. But, the finding will be limited to those quality enhancing

[9]While all states have staff/child ratios for child care centers, not all have educational requirements for teachers.

policies encompassed in the regulations such as child-staff ratios and group size, curriculum (if regulated), and staff training (if regulated). To operationalize the following hypothesis, centers are divided into high and low regulatory environments depending on the stringency of state regulations and analyzed for their performance on the five quality enhancing policies.

Hypothesis 4A: Child care centers operating in high regulatory environments will demonstrate greater adoption of quality enhancing policies than centers operating in low regulatory environments.

The second external rules-in-use variable, funding, affects how child care centers get their revenue. This in turn affects the priority and size of different budget items. If centers are funded solely by fees, the level of tuition determines their ability to pay staff, provide benefits, purchase equipment, etc. Unless the tuition level is quite high, we can expect that those centers relying solely on fees for operating expenses will be more constrained in adopting quality enhancing policies. This especially affects incentives to recruit and retain skilled teachers. In child care, low wages tend to lead to high turnover, which in turn decreases the quality of care for children. The quality of teachers affects the quality of instruction in that low skilled teachers will provide a lower quality of instruction. We would expect that as tuition rates increase, policies for retaining teachers will increase, assuming that decreasing turnover is important to the owner or director.

Subsidies for child care take a variety of forms. Many states have voucher systems in which parents receive a set amount of money that they can use at any child care center for which they can gain admittance for their child(ren). These are fee for service systems in which the center receives a fee from the local government to deliver child care services. Other programs, such as Title XX, directly subsidize child care centers serving low income populations. If public funds augment fees then they may positively impact the centers ability to adopt quality enhancing policies. If public funds replace fees then the center's budget is constrained by the reimbursement rate. Centers receiving public funds may have less or more constrained budgets than those relying solely on fees depending on the reimbursement or subsidy level. Assuming that child care center owners and directors are concerned about quality of child care delivered, we can expect those with less constrained budgets to adopt more quality enhancing policies. If child care center owners and directors have other priorities, we can expect the opposite.

To test the following hypothesis, centers are grouped by their tuition levels and revenue sources to assess the degree of budget constraints and its affect on adoption of quality enhancing policies.

> *Hypothesis 4B: Centers with more constrained budgets will perform less well than centers with less constrained budgets.*

Physical World

Child care is a service produced in a particular geographic area. Its location is an important variable in shaping the action situations that lead to the adoption of quality enhancing policies. The geographic location of a child care center has a major impact on its clientele. Research indicates that parental child care choices are predominantly based on geographical proximity to work or home (Mauser, 1993; Johansen, 1990). In urban areas, parents may have a diversity of child care centers to choose from whereas in rural areas parents may have very few choices. However, even in urban areas, competition between centers can vary significantly. One region of an urban area may have five child care centers whereas another region may only have one. Or, there may be a shortage in certain types of care such as subsidized or infant care. For this reason, it is important to determine the extent of competition experienced by the child care center, even in an urban center. It is also important to determine the type of competition experienced by the child care center. Centers may compete for price but they may also compete with one another on other dimensions.

If child care centers experience fierce competition based upon price, I expect that it will have a negative impact on teacher salaries which will negatively impact quality due to increased turnover or lowering the educational level of the staff. Because the largest expense for child care centers is labor, to decrease costs a center must decrease labor costs. This means increasing the number of children per teacher or decreasing teacher salaries. Since the state sets staff/child ratios, there is limited ability to increase the number of children per teacher and maintain compliance. The other option is to decrease labor costs by lowering wage rates and/or hiring less qualified staff. As discussed above, low salaries can be directly linked to high turnover which in turn negatively impacts the quality of child care delivered. This is the paradox of child care: quality is linked to turnover and turnover is linked to salary levels and salary levels are directly related to tuition levels. Therefore, it is not possible to decrease one without affecting the others unless there is an alternative source of revenue.

Centers may also compete with others centers for “snob appeal.” In any local child care industry, there are a group of prestigious centers. These centers may compete with one another on dimensions such as specialized curriculum (e.g. Montessori, Reggio Emilia), individualized attention, exposure to high culture, etc. Those centers competing for snob appeal may adopt more quality enhancing policies. Other centers may compete by promising greater academic achievement. However, these centers are likely to adopt curriculums that are not developmentally appropriate because they push children to achieve at levels beyond their developmental stage. But, given the gulf between expert and parental knowledge of child care quality, those centers may be popular with parents who are most concerned that their child succeed academically. To understand the effects of competition on center policymaking, directors were asked a number of questions to gauge the extent and type of competition. Centers are then classified according to type of competition and compared to their policy environments. I expect price competition alone or academic curriculum may negatively impact the adoption of quality enhancing policies and that competition based on quality would increase impact the adoption of quality enhancing policies. But, competition may not be easily categorized as being in one dimension. It likely has multiple dimensions and thus the research on the effects of competition on quality are exploratory.

Attributes of the Community

The attributes of the community affecting policy decisions of child care centers include its clientele and the director’s integration into the community of child care professionals. For an individual center, there may be additional attributes. But, all centers make policy decisions based upon the demands of their clientele and the influence of the prevailing professional norms.

The socioeconomic characteristics of the clientele impact the center in several ways. The most obvious is the effect on tuition rate. Higher tuition rates can be charged in more affluent neighborhoods. In poorer neighborhoods tuition will reflect the lower income level unless it is subsidized. However, the price of child care has not been found to vary directly with quality (Cost, Quality and Child Outcomes Study Team, 1995). There is acceptance that there is a relationship between child care quality and socioeconomic characteristics of the family, but the exact nature of the relationship remains inconclusive. Some research has found a direct relationship (Goelman and Pence, 1987; Kontos and Fiene, 1987). Whitebook et al. (1989) found a curvilinear relationship, with middle-income families placing their children in lower quality centers than either low-income or high-income families. This may be due to greater choice availability to poor families receiving child care vouchers or state funding of centers serving low income families.

The clientele served may have an impact on the extent to which parental pressure can influence quality issues. We can expect that parents with higher income levels have a greater range of child care options. The more constrained the family (either by time or resources), the less choice parents have. Even if they are not satisfied with the child care services, more constrained families may not have an alternative. If parents have limited choices in child care, then centers have less incentive to adopt quality enhancing policies.

The clientele served may also affect the degree to which centers are able to integrate parents into the activities of the center. For example, a single parent working full-time has less leisure time than dual parent families. If a center serves only single parents working full-time, it is less likely that parents will have the time to be involved in the center.

I hypothesize that those centers serving clientele with greater options (less constrained by time and money) will make greater efforts to accommodate parent demands and that this will be reflected in adoption of quality enhancing policies. To test the following hypothesis, centers are divided by the predominant socioeconomic group of their clientele (low, middle, or upper income and single parent, dual career parent, single career parents) and are then analyzed for their performance on the five quality enhancing policies.

Hypothesis 4C: Those centers serving clientele with greater child care options (i.e., less constrained by time and/or money) will make greater efforts to accommodate parent demands and this will be reflected in the center's adoption of quality enhancing policies.

The second attribute of the community is the professional norms of the child care industry. The degree to which a director is integrated into the local, state, or national community of child care professionals may have a significant impact on her knowledge base from which she makes or influences policy decisions. We can expect that those directors more integrated into the child care community will make better informed decisions. To test the following hypothesis, center directors are categorized according to their knowledge of the professional child care community in the following way: no knowledge, some knowledge, good knowledge.

> *Hypothesis 4D: Directors who are more integrated into the professional child care community will be better informed about early childhood education and this will positively affect adoption of quality enhancing policies.*

Conclusion

This chapter discussed the four research questions presented in Chapter 2 and presented the operationalization of key variables. As discussed in Chapter 2, previous nonprofit research and previous child care research does not examine the policy environment within the enterprise. Therefore, this research examines the impact of constitutional level choices on policy choices and compares child care centers by their policy environments. Figure 3-1 summarizes the chapter into a schematic diagram of the IAD Framework. The following chapter discusses data collection methods and describes four empirical cases. Chapter Five presents empirical analysis of the research questions.

Table 3-1
Summary of Research Questions 1-3

Research Question 1: What are the motivations for entrepreneurs to establish for-profit and nonprofit enterprises?

Hypothesis 1: There is significant intra-sectoral variability in entrepreneurial motivations in the founding of for-profit and nonprofit enterprises.

Research Question 2A: Does classification by governance structure yield greater explanatory power for variation in adoption of quality enhancing policies than classification by sector?

Hypothesis 2A: Grouping by governance structure demonstrates less variability in adoption of quality enhancing policies than grouping by sector.

Research Question 2B: Do nonprofit enterprises facilitate consumer voice to a greater extent than for-profit enterprises?

Hypothesis 2B: Parental use of voice in policy decisions occurs in both the nonprofit and for-profit sectors.

Research Question 3: Is there a relationship between governance structure, transaction costs, and adoption of quality enhancing policies?

Hypothesis 3: Centers with governance structures associated with the potential for high agency costs and who are also concerned with quality will devise monitoring mechanisms (incur transaction costs) to decrease agency costs.

Table 3-2
Research Question 4: Policies Affecting Quality
(dependent variables)

Assumption: Centers with policies to attract and retain skilled teachers, lower staff/child ratios and group sizes, offer a developmentally appropriate curriculum, encourage parental involvement, and to pursue accreditation are more likely to deliver quality child care services.

Note: All of these data are collected through interviews of child care center directors and owners and observation.

1. Attract and Retain Skilled Teachers
Centers are assessed in the following areas:
- Hiring policy regarding education and experience of staff (Low, Medium, High)
- Benefits package (None, Poor, Good, Excellent)
- Wage rates (minimum, above minimum, high)

2. Teacher/Child Ratios and Group Size
Centers are divided into low and high regulatory environments and then assessed to the extent that they maintain ratios:
- At state levels (minimal)
- Below state levels (better)
- At NAEYC levels (best)

3. Curriculum
Centers are assessed by the educational training of the person responsible for setting the curriculum:
- No early childhood training
- Some early childhood training (Associates degree or less)
- Bachelors degree
- Masters or Doctoral degree

4. Parental Involvement
Centers concerned about quality will try to integrate parents into the center. Centers are assessed for the degree of parental integration:
- No parent involvement
- Low parent involvement (e.g., special events only)
- Medium parental involvement (e.g., classroom, clean-up days, special events, etc.)
- High parental participation (parents are integrated into the center)

5. Accreditation
Centers are classified into three groups:

- Center is not accredited and the director is not knowledgeable about accreditation
- Center is not accredited but director is knowledgeable about accreditation
- Center is accredited

Table 3-3
Research Question 4:
Variables Affecting the Adoption of Quality Enhancing Policies
(independent variables)

I. Rules-in-Use
A. Regulatory Environment
Hypothesis 4a: Child care centers operating in high regulatory environments will demonstrate greater adoption of quality enhancing policies than centers operating in low regulatory environments.

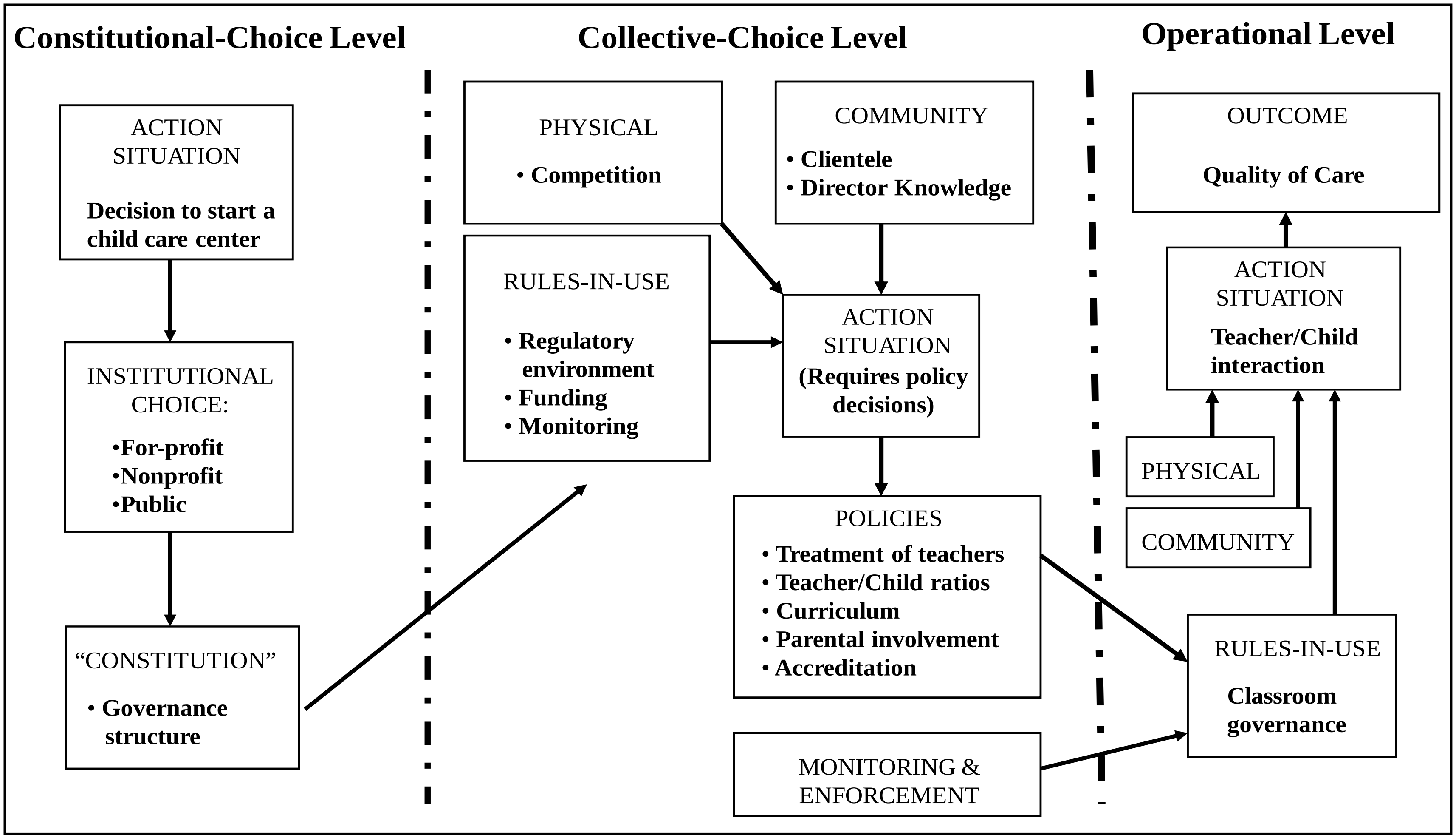
B. Funding Environment
Hypothesis 4b: Centers with more constrained budgets will perform less well than centers with less constrained budgets.

II. Physical World
A. Geographic Location
The effects of competition on the adoption of quality enhancing policies are exploratory. Three dimensions of competition including price, snob appeal, and academic success are explored.

III. Attributes of the Community
A. Clientele
Hypothesis 4c: Those centers serving clientele with greater child care options (i.e., less constrained by time and/or money) will make greater efforts to accommodate parent demands and this will be reflected in the center's adoption of quality enhancing policies.

B. Director Integration into Professional Community
Hypothesis 4d: Directors who are more integrated into the professional child care community will be better informed about early childhood education and this will positively affect adoption of quality enhancing policies.

FIGURE 3-1: THE IAD FRAMEWORK APPLIED TO CHILD CARE



Chapter 4
Data Collection and Case Descriptions

Introduction

Chapter Three concentrated on operationalizing research questions as they relate to the child care industry. In this chapter, the focus is on the research design for empirically testing the research questions. As discussed in Chapter One, the formal market for child care includes day care homes, child care centers, and traditional part-day nursery schools. This research focuses exclusively on child care centers for two reasons. First, child care centers are produced by a mixed economy of nonprofit, for-profit, and public enterprises. Day care homes are proprietary establishments and most nursery school programs are sponsored by religious nonprofits. Limiting the research to centers allows the comparison to be between for-profit, nonprofit, and public enterprises producing full time child care. The second reason for selecting only child care centers is to control for the regulatory environments. Day care homes have different regulatory environments than centers. In many states, nursery schools are exempt from part or all of the center regulations. Thus, limiting the empirical investigation to child care centers facilitates a cross sector analysis of comparable enterprises.

This chapter is divided into three parts. The first part discusses data collection methods. The second part presents the case selection criteria for the four empirical cases. The third section describes each of the cases in terms of child demographics, child care industry, regulatory environment and state funding. The chapter concludes with plans for empirical analysis.

Data Collection

Data collection consisted of interviews and review of relevant child care research, government documents and advocacy materials. Interviews were conducted with child care center directors and owners, government officials, resource and referral agencies, and child care advocacy organizations. The research started in June 1996 and was completed in April 1998. In this section, I discuss data collection for each of these groups.

Child Care Center Directors and Owners

For each city, I obtained a list of child care centers from the appropriate state office. Child care center directors and owners were phoned and asked to participate in the study. For those agreeing to participate, I interviewed the director and/or owner and toured the center. Interviews lasted from 45 minutes to five hours. Interview questions were open ended and related to the general categories of research questions.

The breakdown of centers for each case are summarized in Table 4-1. In selecting centers, I concentrated on those child care centers offering full-time care for children under five. This criteria effectively excludes after school programs and part-day nursery schools. I also excluded Head Start programs which are funded and regulated by the federal government and therefore may not react to local demand conditions to the same extent as child care centers relying on fees for a significant portion of their budgets. Centers were phoned and asked to participate in the study. It is important to note that although there was an attempt to select centers at random, approximately one in five center directors and owners declined to participate. If declining centers were lower quality, then this potentially introduces a selection bias in favor of higher quality centers. In each case, since access is difficult, when I received a recommendation or referral to a particular center I then contacted that center and usually was able to obtain an interview. This was a minority of cases and accounts for less than 20 percent of the sample. Yet, since the recommended centers tended to be the prestigious centers in the area, it may increase the selection bias in favor of higher quality centers.

Government Officials

For each case, I interviewed state government officials responsible for licensing child care centers, setting child care policy, and/or welfare policies related to child care subsidies. I also interviewed local government officials in cases where they are responsible for regulating the child care industry. Interview questions involved determining the history of child care regulation in the state and current regulatory issues such as insufficient staff, limited authority to close centers in violation of licensing requirements, state welfare reform plans, and funding mechanisms for child care. These interviews served as background information for understanding the regulatory and funding environment faced by child care center owners and directors. I also queried officials about their perspectives on for-profit versus nonprofit production of child care services to gauge the extent of support for preferential treatment of nonprofit enterprises. Interviews with state and local officials also helped in triangulating information learned in other interviews.

Resource and Referral Agencies

Each of the cases selected had resource and referral agencies (R&Rs). These agencies are secondary markets helping match parents with child care providers. While R&Rs exist to coordinate parents with child care services, they do not make quality recommendations. They only provide brochures to parents to guide them in making their child care choices. Therefore, they have a minimal role in decreasing information asymmetries related to quality. The scope of services varies significantly among R&R agencies. Some concentrate only on R&R while others provide training for caregivers and directors, offer parenting classes, and serve as advocacy organizations. I interviewed R&Rs to: 1) determine the scope of services offered as a means of evaluating their effectiveness as secondary markets; 2) to learn about the local child care industry; 3) to triangulate information about individual centers learned in other interviews. Similar to my interviews with government officials and child care center directors and owners, I queried R&R interviewees about their perspectives on for-profit versus nonprofit production of child care services to gauge the extent of support for preferential treatment of nonprofit enterprises.

Child Care Advocates

I contacted all the major child care advocacy organizations in United States searching for material relevant to my research questions. The groups contacted include: The National Association for the Education of Young Children, National Child Care Information Center, Children's Defense Fund, Child Care Action Campaign, Child Care Law Center, Council of Chief State School Officers, ERIC Clearinghouse on Elementary and Early Childhood Education, National Association of Child Care Professionals, National Association of Child Care Resource and Referral Agencies, Center for the Future of Children, National Center for the Early Childhood Work Force, National Child Care Association, Day Care Information Service, and a multitude of state level advocacy organizations.

Case Selection Criteria

Cases were selected based upon two criteria: state regulatory environment and sector mix. The selection of cases is summarized below. The four cases are limited to urban areas to assure adequate competition between child care centers.

To maximize variation I selected two states with high regulatory environments (California and New York) and two cases with low regulatory environments (Indiana and North Carolina). In the case descriptions below, the regulatory environment for each case is described in detail. Summarized in Table 4-2, Indiana and North Carolina have lower teacher qualifications, greater types of child care arrangements that are exempt from licensing, and higher staff/child ratios for preschool age children. As discussed in the previous chapter, the regulatory environment sets the floor for quality. The lower the floor, the more likely child care centers will deliver child care at that minimal level; the higher the floor, the more likely child care centers will deliver at the higher minimal level (Morgan, 1985; Gormley, 1991). Therefore, if nonprofit theories are correct, quality differences between for-profit and nonprofit centers should be most pronounced in low regulatory environments. Theoretically, we should see nonprofit centers demonstrating significantly better quality enhancing policies than for-profits because the for-profits will only supply the floor of quality mandated by the state regulations in order to maximize profits. In high regulatory environments, the quality differences will be less pronounced but sectoral differences should be evident in other dimensions. For example, sectoral differences in clientele served should be pronounced in high regulatory environments. Centers operating in high regulatory environments face higher production costs than centers operating in low regulatory environments. Therefore, in order for a for-profit to generate profits it will seek out the profitable segments of the market. And, since nonprofits are theoretically not interested in profits, they can be expected to seek out the less profitable segments of the market. If nonprofit theories are correct, there should be clear sectoral differences in clientele served.

The second criteria, sector mix, adds the public sector to two of the four cases. This creates a three sector comparison in both a low and high regulatory environment. Including public sector production of child care services alters the competitive environment within which child care center directors and owners make policy decisions. Public sector child care is available through the federal Head Start program and through public schools. As noted above, Head Start programs are excluded from my study. At the local level, there is a trend towards public school production of child care services. Many public schools produce pre-kindergarten services and some are expanding into full service child care centers (Kahn and Kamerman, 1987; Zigler and Lang, 1991; Bauch, 1988). Centers run by school districts are governed by an elected school board although formal oversight may also reside with the state department of education. With the exception of California, public school child care programs are relatively new. Since the growth of the child care industry occurred in the 70s and 80s, many local child care industries are maturing. What was once a new industry with unlimited demand, is fast becoming saturated, especially for high income segment of the market. Thus, depending on the local market conditions, public school production can become a competitor with the for-profit and nonprofit child care sectors. Thus, when the public sector is involved, it may impact the policy decisions of individual centers. Cities with public school programs include: Berkeley, CA and Charlotte, NC. Case selection is summarized in the following table:

		Regulatory environment	
		Low	High
Public school production of	Yes	Charlotte, NC	Berkeley/ Oakland,CA
child care	No	Indianapolis,IN	Buffalo, NY

The remainder of the chapter describes each of the four cases. For each case, general demographic data are provided followed by child care specific information related to demographics, industry, regulatory environment, and funding environment.

Case 1: Berkeley/Oakland, California

Alameda County is quite large encompassing 738 square miles and 14 incorporated cities and a number of unincorporated communities. It is the seventh most populous county in California with 1,773 people per square miles. The population in 1992 was 1,307,572 (U.S. Census Bureau, 1994). The Berkeley/Oakland area in northern Alameda County is the most heavily populated part of the county and is home to over a third of the population. Oakland alone accounts for nearly a quarter of the total county population. To maintain an urban focus, I limited my interviews to the Berkeley/Oakland urban area which encompasses Alameda, Albany, Berkeley, Oakland and Piedmont.

Alameda County's population grew 18.3 percent from 1980 to 1990. This is a slower rate than the rest of the state (30.5%). Similar to the rest of California (see Table 4-3) there is significant racial diversity in Alameda County. There are significant populations of Asians, African Americans, and Latinos. This racial diversity, especially in the Asian community, leads to significant linguistic diversity. In Alameda County approximately 25 percent of families do not speak English at home. Other languages include Spanish (9%), Chinese (4%), Tagalog (3%), Korean (1%), and Vietnamese (1%) (Association of Bay Area Governments, no date). With the exception of Oakland, northern Alameda County had mean household incomes above $40,000 per year in 1995. Piedmont's mean household income was nearly off the chart approaching $130,000 (Alameda County Planning Department, no date).[1]

Child Demographics

1990 census data indicate that 55.6 percent of California's mothers with children younger than age six are in the labor force (Adams and Poersch, 1997). Approximately 38 percent of California's child population is under age five (Annie E.Casey Foundation, 1997). In Alameda County the percentage is closer

[1]Mean income can be misleading because extreme values at either end drastically alter the mean value. Median income is a more accurate measure but was not available from the same source.

to 25 (Association of Bay Area Governments, no date). As indicated in Table 4-4 California is close to the national average for many of the general indicators for children such as low birth-weight babies, infant mortality rate, poor families receiving assistance. Indicators where it is higher than the national average are teen birth rate, children in poverty, and children without health insurance. In Alameda County, 54 percent of children 5 years and younger live in households where either both parents or the single-parent head-of-household is in the labor force. Approximately half of these children are in child care outside of the family (California Child Care Resource and Referral Network, 1997).

Child Care Industry Dimensions

The child care industry in California is dominated by child care centers. Sixty-nine percent of child care capacity is through centers. Family child care homes constitute 31 percent of child care capacity. Of the child care centers, 4 percent serve infants, 22 percent serve school age (6 and up), and 74 percent serve preschool (ages 2-5) (California Child Care Resource and Referral Network, 1997). In 1996, California had 12,551 licensed child care centers, 44,199 regulated family child care homes and 8,000 regulated group/large child care homes (Adams and Poersch, 1997). In Alameda County there were 1,897 homes and 535 centers (California Child Care Resource in Referral Network, 1997). In northern Alameda County there were 227 centers at the time of data collection. I interviewed 31 center directors/owners which is roughly 14 percent of the total number of centers.

Accreditation

NAEYC accreditation is not prevalent in California. Across the state slightly more than four percent of child care centers are accredited. In Alameda County there are 15 accredited centers which represent only 3 percent of centers. All but two of these are located in the southern part of the county beyond the bounds of this case. In northern Alameda County, there is one accredited center at the University of California, Berkeley campus and one at a military base in Oakland.

Public Schools

Public school child care funding in California can be traced back to the Lanham Act of 1940. This Act provided federal funds to care for the children of mothers working to support the war effort. When World War II ended most states closed their public child care centers but California's remained open. Currently, the State Department of Education provides funds to public school districts to operate child care centers and public preschools. The child care centers provide full time care and the preschools are traditional nursery school programs (partial day).[2] To participate in the child care centers, parents must be working or in school unless the parent is incapacitated or has a special needs child. Parents with children in state preschools are not required to be working or in training. All parents must meet financial eligibility requirements. Poorer families have priority

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[2]California recently allocated $15 million to make its state preschool program a full-day, full-year program.

for public school child care and tuition is based on a sliding fee scale. Any family 50 percent or below the state median income (this is considered to be at the poverty level) does not pay tuition. Parents above 50 percent and up to 75 percent of state median income pay from $2/day to $20.80/day depending on gross monthly income and family size. In Oakland, there are 35 child care centers and in Berkeley there are four. School officials in both school districts reported that all public school centers were full and had extensive waiting lists. And, the families they serve either do not pay fees or pay minimal fees. Thus, the public school program is serving the very poor and there is likely significant unmet demand for subsidized child care.

In 1997 the Secretary of Education appointed a committee to explore a universal pre-kindergarten program. At this time there has been no further action on the issue.

Regulatory Environment

California Department of Social Services licenses child care centers and day care homes (Titles 22, Division 12, chapters 1 and 2). There are separate licenses granted for infant programs and centers serving preschool age programs. Because of this separation, this case had fewer centers serving infants through preschool age. Some centers maintain two licenses but most either serve infant or preschoolers.

If the program is funded by the State Department of Education (SDE), it is regulated under Title 5 of The California Code of Regulations. Title 5 has lower ratios and requires greater program monitoring than Title 22. Differences between Title 5 and Title 22 will be noted below where applicable.

Licensing and Inspections

Centers receive an announced inspection annually (every three years for day care homes). This is unlike Indiana in which the inspections are unannounced. The state requires a criminal record check for anyone applying for license. If a person has a criminal record (excluding minor traffic violations) the license will be denied. Every adult working in the facility is required a have a criminal record check with the following exemptions: volunteers (if less than ten days per month); employees of programs under contract with the State Department of Education (SDE does a background check); employees of child care programs operated by a school district, county office of education, or community college district under contract with SDE.

Program Requirements

At the initial application for a licence the center is required to submit program information but subsequent annual inspections do not review center's programs and there are no licensing regulations covering program requirements. All licensing inspectors focus on health and safety.

If the center receives funds from the State Department of Education, there are significantly greater program requirements. The state requires conferences, assessments of children, and for the full day program, parent participation in educational programs. Public school programs apply for the Exemplary Program.

This program requires an annual self review, a review by the SDE every three years, and a review by the school district every one to two years. Thus, public school programs have greater requirements and receive closer monitoring than those regulated under Title 22.

California does not allow corporal punishment in child care facilities. California requires that each child care center provide 35 square feet of indoor activity space per child and 75 square feet per child of outdoor activities space.

Ratios

Under Title 22 ratios for preschoolers vary depending on the qualifications of the teacher and teacher aides as follows:

Staff	Staff/Child Ratio
Teacher	1:12
Teacher w/ aide	1:15
Teacher w/ trained aide	1:18

Programs serving toddlers (18-30 months) must maintain a 1:6 ratio with a maximum group size of 12. Infant programs require a separate license and must maintain a 1:4 ratio with a qualified teacher supervising no more than 12 infants (with the assistance of two aides).

Programs receiving funds from the State Department of Education are regulated by Title 5 California Code of Regulations. They must maintain the following ratios:

Age	Staff/Child Ratio	Teacher Ratio
Infant 0-18mo)	1:3	1:18
Toddler (18-36mo)	1:4	1:16
Preschool (36mo - kind.)	1:8	1:24

Kindergarten & older	1:15	1:28

Under Title 5 mixed age groups are allowed. If the younger age group exceeds 50 percent of the total number of children present, the ratios for the entire group must meet the ratios required for the younger age group. If the younger age group does not exceed fifty percent, the teacher-child and adult-child ratios shall be computed separately for each group. Under Title 22, all preschoolers have the same ratio so mixing ages is allowed without having to alter ratios. For both Title 22 and Title 5, volunteers are not allowed to be counted in the ratios. The director can be included in the ratio if she is engaged in the classroom. An omission in California's otherwise developmentally appropriate ratios is the lack of groups size limits. California does not regulate group size except for toddlers and infants.

Staff Qualifications

California sets minimum qualifications for directors, teachers, and teacher aides. Child care center directors must have a high school diploma or its equivalent, 15 semester units in early child education, and four years of teaching experience. If the director has greater educational level, then the experience requirement is decreased. To be fully qualified, teachers are required to have completed at least six semester units prior to employment and are required to complete two units per semester until a total of 12 units are completed. Or, a teacher must have a valid Child Development Associates (CDA) credential or a California Children's Center Permit. Under Title 22, teacher aides can only work under the supervision of a fully qualified teacher. If an aide has no training then the teacher and aide are limited to 15 children. If the aide has six units, then the teacher and aide can serve 18 children.

Training

All personnel are required to be given on the job training if they do not have the required knowledge related to nutrition, sanitation, child supervision and communication, self administered medications, recognition of early signs of illness, community services and resources. But, the regulations do not require a certain number of hours of training per year.

Review process

If a center is found to be out of compliance, the Department of Social Services can deny, revoke, or suspend the license. Each of these actions results in a hearing. The department may level a civil penalty amounting to $25 to $50 for each violation for maximum of $150 per day.

Exemptions

California has fewer exemptions for child care centers than the other three cases. It requires that all nursery schools and religiously affiliated centers be licensed. Exemptions are granted only for parent cooperative arrangements and recreation programs operated after school or during school vacation.

California allows child care vouchers to be used in the informal sector and these arrangements are exempt from licensing. But, it requires exempt providers to participate in its Trust Line. This is a monitoring mechanism requiring providers to undergo a criminal and child abuse background check. Child care facilities must also sign a health and safety certification inspection and have smoke detectors. Providers must have a TB test and must not smoke. But, a major loophole in this policy is that relatives who receive vouchers to care for children are not required to participate in Trust Line. The R&Rs administering Trust Line have no method for checking whether the provider is actually a relation. For example, if a parent says the caretaker is an aunt or uncle, then the R&R cannot require that person to register with Trust Line.

State Child Care Funding

California ranks 14th in commitment to securing funds for child care and early education (Adams and Poersch, 1997). For the 1997 budget year, the State appropriated $138 million in new state dollars for child care, which is $176 million on an annual basis. California has appointed a task force to offer recommendations for providing access for all children ages three and four to high-quality preschool across a diverse delivery system. Thirty million of the $176 million increase in state child care funds will be used to expand part-day pre-kindergarten programs into full-day programs. California plans to spend close to eight percent of its funding for quality improvements, including R&R services, grants or loans to help providers meet state or local standards, monitoring of compliance with licensing and regulatory requirements, training and technical assistance, compensation for child care providers, comprehensive consumer education, and other quality activities consistent with the purposes and requirements of the Child Care and Development Block Grant (CCDBG).[3]

Because of California's growing population and its initiative to reduce class size in elementary schools (many of which house child care programs), the Legislature enacted several bills, accompanied by state funding, to increase the number of child care facilities. A total of $25 million was allocated to begin a self-generating fund that allows child care programs to lease buildings for ten years at fair market value, or through a lease agreement with the state. After the lease expires, ownership of the building will be transferred to the program. This $25 million is allocated as follows: $5.77 million for school-age children, $3.1 million for expansion of facilities for children ranging from infancy to school-age, $16 million dollars to build capacity for child care generated by Temporary Assistance to Needy Families (TANF) recipients, and a lease purchase program allowing child care programs to lease a state-owned portable facility for one dollar a year.

California's state jobs program (CalWORKs) has a significant child care component. It assures child care assistance to participants in CalWORKS (the state's employment program) when they join a job club or begin using job search services, when child care is needed for a recipient to complete an element of his or her welfare-to-work contract, or when parents participate in community service activities or work on self-initiated projects. California is allocating $117.5 million

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[3]CCDBG has now been reformulated into the Child Care Development Fund (CCDF). All subsequent references to current child care funding will refer to CCDF.

from federal TANF funds will remain in the TANF Block Grant to provide child care to TANF recipients (rather than being allocated to other welfare needs). To decrease demand for infant care, which is expensive and in short supply, California sets an exemption from work requirement for mothers with children younger than six months. But, it gives counties the additional options of exempting only mothers with children younger than 12 weeks, or extending the exemption to mothers with children up to age 1. California lowered its eligibility cutoff from 85 to 75 percent of state median income thus decreasing the number of families with incomes low enough to qualify for child care assistance. But the 75 percent is a threshold that will be adjusted through an annual budget act to reflect the size of the eligible population and the levels of available funding. CalWORKs limits benefits to a five year cumulative lifetime limit; however, children of adults who reach the lifetime limit may be eligible to continue to receive vouchers or cash at the county's option.

There are three stages to the CalWORKs program. Stage I is administered by the California Department of Social Services (DSS) through county welfare departments. This stage begins when a parent enters the CalWORKs program. The County refers families to resource and referral agencies as described in the R&R section described below. Participants are expected to be on Stage 1 for approximately six months. When families have developed a welfare-to-work plan and located child care, they are transferred to Stage II. This stage is administered by the State Department of Education[4] (SDE) through its Alternative Payment Program (AP). The AP program participants administer the state voucher program. Vouchers can be spent in the formal (licensed facilities) and informal markets (unlicensed facilities). All persons delivering child care must register with the state's Trust Line (the state's system for background checks) unless they are relatives of the child(ren).[5] Participation in Stage II is limited to two years. Stage III is designed to help those former CalWORKs participants who are now in the labor force to pay for child care. The family can move to Stage III if there is a space available and it can stay there as long as the family does not earn wages above the income limits set by SDE.[6] The critical issue to be solved at the time of my interviews was how to make sure that there would be sufficient funds at Stage III to help the families leaving CalWORKs. AP program participants feared all of the budget would be spent at Stage II and there would be no funds left for the working poor. Their concern was that without child care assistance, the parents of these families would likely end up back at Stage I if they could not afford child care and subsequently lost or quit their jobs to care for their children.

[4] A small portion of the Stage II funds are administered by the California Community Colleges.

[5] AP participants indicated that the relative exemption creates a large loophole. Because the APs have no way of verifying that someone is indeed a relative, they are forced to take the word of the parent. Posing as a relatively easy way for individuals to circumvent the background check requirement.

[6] The allocation for the 1998 fiscal year was divided as follows: DSS (Stage I) $34.7 million, SDE (Stage II and III) $1 billion, Community College (Stage II) $15 million. These data were collected by Research Assistant Kyle Wedberg.

Resource and Referral Agencies

In 1976 the California State Department of Education, Child Development Division started funding resource and referral agencies (R&Rs). All of the R&Rs are part of the statewide California Child Care Resource Referral Network . The Network was founded in 1980 and is a well organized coalition. They hold annual conferences, lobby for child care issues, and coordinate services to support parents, providers, and local communities. In 1989 a Federal Dependent Block Grant fund was used to develop standardized data collection across the R&R agencies. The federal funds were distributed to local R&R agencies through the SDE and the project was coordinated by the California Child Care Resource and Referral Network. The result of this project is that now all resource and referral agencies gather comparable data from licensed day care homes and centers and license-exempt facilities. These data are used to inform state and local policy-making.

There are three resource and referral agencies in Alameda County: BANANAS, Four C's, and Child Care Links. The Berkeley and Oakland area is primarily served by the BANANAS Child Care Information and Referral Agency. BANANAS started as a grassroots support group in the 70s for mothers who felt isolated in the women's movement. When women starting entering the formal labor force in ever larger numbers, the needs of parents changed from support to finding child care. This led BANANAS to change its focus to resource and referral. Given its history, parents are still the top priority which is different than most R&Rs. BANANAS provides child care referrals but it also provides technical assistance to providers, holds a variety of workshops for parents and providers, acts as a child care advocate, and disperses child care vouchers. They also publish a variety of educational brochures and articles and a bimonthly newsletter. BANANAS is the only R&R in the four cases to include in its database whether the child care center is for-profit or nonprofit. The other three cases do not collect this information.

Under the 1996 welfare reform, R&R agencies have been given an explicit role in working with TANF recipients. County welfare departments must refer families at various stages of moving off of welfare to the local R&R. Depending on the family's location, the R&R will refer the family to an Alternative Payment Program. There are seven Alternative Payment Program participants three of which are also resource and referral agencies.[7] The local R&Rs are planning to have a representative located in the welfare office to facilitate swift communication with parents and case managers. Thus, California R&R's are playing a significant role in the welfare system.

Case 2: Indianapolis, Indiana

Indianapolis is the state capitol of Indiana and one of its largest urban areas. Indianapolis is situated in and nearly encompasses Marion County. The County

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[7]The Alternative Payment Program participants include: BANANAS; Four C's; Child Care Links; Child, Family and Community Services; Berkeley and Albany License Day Care Association; Oakland Licensed Day Care Association; and Davis Street Community Center.

covers 396 square miles with 2,051 persons per square mile (see Table 4-3). This is a higher population density than Alameda County, California. Indiana's 1992 population was 5,658,323 and Marion County accounts for 24 percent of the state population. Marion County has 6.2 percent increase in population from 1980 to 1990. As a state, Indiana is more homogeneous than California. Its population is predominately Caucasian (86%) with a small African American population (11%) and minimal Latino, Asian and Native American populations (4%). In Marion County there is a higher percentage of African Americans (23 %) and lower percentages Asian, Latinos and Native Americans (3%) and Caucasians (76%) (U.S. Census Bureau, 1994). The racial demographics of Indianapolis are similar to many urban areas in the United States with African Americans populating the urban areas and Caucasians populating the suburbs.

Child Demographics

The 1990 census indicates that 63.6 percent of mothers with children younger than age six are in the labor force (Adams and Poersch, 1997). The general indicators presented in Table 4-4 place Indiana near the U.S. average for most categories. One exception is that the median income for families with children in Indiana is $33,100 which is $3,900 below the national level. Indiana's child poverty rates are lower than the national rates. Seventeen percent of Indiana's children live in poverty (U.S. rate is 21%) and 7 percent live in extreme poverty (U.S. rate is 9%). One area where Indiana is higher than the other four cases and the U.S. is in the percent of 3- to 5- year olds who were not enrolled in nursery school or kindergarten. In 1993, 47 percent of Indiana's children did not attend nursery school or kindergarten versus 40 percent for the U.S. and 37 to 43 percent for the other cases. Indiana does not require kindergarten which is likely the reason for the higher rate.

Child Care Industry Dimensions

In 1996, Indiana had 654 licensed child care centers and 2,678 regulated day care homes and 347 registered child care ministries (to be defined below). Because day care homes care for small numbers of children, the actual number of slots in centers is considerably greater than that for day care homes. There are 56,501 slots in centers and 30,819 in homes (FSSA, 1996). The number of slots in child care ministries is unknown because they are not regulated. In Marion County there are 132 centers, 464 day care homes and 59 registered child care ministries. My sample of 31 centers represents 23 percent.

Accreditation

Indiana has 62 accredited centers representing approximately 9.5 percent of all child care centers. This is above the 6 percent national average. In Marion County there are 19 accredited centers which represent only 3 percent of the centers.

Public School

Child care is not provided by the public schools in Marion County. The one exception to this is Lawrence Township Public Schools. Two child care centers are operated as a vocational education program for high school students.

The centers are not open to the public but rather serve the children of school employees. The centers charge tuition and are also subsidized by the public schools.

Regulatory Environment

The industry is comprised of licensed child care centers, registered child care ministries, nursery schools/preschools, and day care homes. Child care centers and ministries are regulated by the Family and Social Services Administration (FSSA).[8] Nursery schools and public and private schools are exempt from licensing (see exemptions section). Day care homes are inspected by the Marion County Health Department. There are two sizes of homes: Class 1 homes can care for up to 12 unrelated children; Class 2 homes can care for up to 16 unrelated children. Homes serving 5 or less children are exempt from licensing.

Child care centers and homes serving more than five children must be licensed, although the center licensing is significantly more extensive than that for day care homes. Child care ministries (CCM) are located in churches and can choose to be licensed or registered. If they are licensed, they are subject to the same standards as child care centers. If they are registered, CCM are not required to adhere to child/staff ratio requirements, staff educational requirements,

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[8]FSSA was created in 1991 as a solution to Indiana's fragmented social service delivery system. The FSSA consolidated three departments, Human Services, Mental Health and Public Welfare, into a single administrative body. The FSSA began operating January 1992.

nutrition/food requirements and space per child requirements. In addition, they have fewer health requirements. All registered and licensed child care establishments must check the criminal history of all staff, train all staff in universal precautions (CCM are exempt from CPR and first aid training), maintain safe equipment, allow unrestricted parental visits, keep immunization records for children, and follow isolation procedures for ill children. Corporal punishment is not allowed in centers but may be practiced in CCM and child care homes.

Licensing and Inspections

Within FSSA, the Division of Family and Children (DFC) in the Bureau of Family Protection/Preservation handles the licensing and inspections. For centers, DFC oversees compliance with: child to staff ratios, capacity, safety, staff qualifications, program requirements, building safety, nutrition, food, and sanitation. The State Fire Marshal inspects child care centers for compliance with fire regulations. Centers are relicensed every two years but have unannounced inspections annually.

FSSA and the State Fire Marshal issue the registration certificate for CCM. The State Fire Marshal inspects CCM based upon the primary use of the building. Since child care ministries are located in churches, this means that the fire regulations apply to a church and not a child care establishment. It is important to note that there is no enforcement mechanism for CCM as long as they do not violate conditions of registration. They are allowed to practice corporal punishment and can have any curriculum and staff/child ratios they choose. The only method for closing a CCM is for the state to not renew a registration. If that happens, the FSSA can then go to the Attorney General to close the CCM because it is operating without registration. But, given the minimal standards for registration, it is very difficult to close a CCM.

The Marion County Health Department inspects home-based child care facilities while the FSSA issues operating licenses (Thevenow, 1997). These regulations cover minimum standards for buildings and grounds, equipment and furnishings, care of foodstuffs and utensils, admissions, health and medical care, records, and reports of immunization and testing (Gen. Ord. 6-1996 (a)). The facilities are inspected annually by the county.

Program requirements for Licensed Child Care Centers

Each center must display a written program. The regulations specify that the activities should be appropriate to the age of the children but there is no specific age appropriate activities specified. Nap times are required daily and cots must be provided, cleaned daily, and stored. There is a ban on corporal punishment in centers (but it is allowed in child care homes and CCM). Each center must have a written discipline policy informing parents and staff.

Ratios

For all licensed centers, the following ratios apply:

Age	Ratio	Group size
Infant	1:4	8
Toddler	1:5	10
2	1:5	15
3	1:10	15

4	1:12	15
5	1:15	15
6 & older	1:20	15

Staff Qualifications

The director must be at least 21 years of age and have a bachelor's degree from an accredited college or university that includes 15 credit hours in Early Childhood Education or an associates degree in Early Childhood Education and three years experience. Teaching staff and child care staff must be at least 18 years of age and have a highschool diploma or the equivalent. Indiana does not require child care teachers to have any training in early childhood development. Volunteers, excluding parents, must meet all the requirement and qualifications of the positions to which they are assigned if they are counted in the child-staff ratios. All volunteers must meet health requirements.

Training

The only training required is for universal precautions (e.g., CPR). But, the state has begun a new voluntary training initiative to increase educational levels of child care staff. Ivy Tech State College, in collaboration with the state's R&R agencies and with the support of Purdue Extension Services, will offer a three-credit college course to be delivered statewide. The course, *Beginnings in Child Development*, will examine basic principles of child development, developmentally appropriate practices, the importance of working with families, licensing, and elements of quality care for young children. All costs will be funded by the state. Indiana's Step Ahead Councils (to be discussed below) have been invited to submit names of new and existing providers to receive scholarships, as well as names of potential faculty members. County projects are encouraged to require scholarship recipients to sign letters of agreement pledging their intent to remain in the child care field. The state expects to credential nearly 1,000 providers by September 30, 1998 as a result of the training initiative. Initiative collaborators are working on a second and third phase and are considering an additional phase to assist students applying for the Child Development Associate credential. It is important to note that this training is voluntary.

Review process

The Division of Family and Children (DFC) must give a licensee 30 calendar days written notice by certified mail of an enforcement action. The licensee then has 10 days to request an informal meeting with DFC. The child care center can request an administrative hearing within 30 days of receiving the certified enforcement action. If a license is suspended, the center must cease operations. To reinstate the license, the center must submit a plan of corrective action to the DFC for approval. If the DFC accepts the plan, then the license will be reinstated. When a license is suspended, the DFC may: 1) reinstate the license for the term of the original license, 2) revoke the license, 3) issue a new license, 4) deny a reapplication. The DFC may revoke a license in cases of: abuse or neglect by the licensee, a criminal conviction of a felony or a misdemeanor related to the health or safety of the child, false applications, false record statements. The DFC can impose civil penalties of not more than $1,000 for violations. The DFC's decision is subject to judicial review.

Exemptions

Nursery schools are exempt from licensing if the child attends for four or less hours per day. Traditional nursery schools fall into this category in that there is typically a morning or afternoon session and children attend one or the other but not both. Preschools for children 3 years and older are exempt if operated by the Department of Education or a public or private school. For these exempt child care providers, there is no oversight by the FSSA. Registered child care ministries are exempt from most licensing requirements as noted above. In order for exempt providers to receive vouchers, Indiana state law requires exempt providers to sign a checklist statement stating that they meet health and safety standards set forth in the federal guidelines for the Child Care Development Block Grant (now referred to as the Child Care Development Fund).[9]

State Child Care Funding

Indiana ranks 41st in state commitment to securing public funds for child care and early education (Adams and Poersch, 1997). However, attention to child care needs is increasing and the state has launched two new interrelated programs.

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[9]In 1990 Congress required that all providers receiving federal funds through the Child Care Development Block Grant meet health and safety requirements encompassing: the prevention and control of infectious diseases, building and site safety, and health and safety training for providers. Each state's lead agency must provide assurances to Congress that grant recipients are complying with the regulations and that parents have unlimited visitation rights to funded facilities.

In 1991 Governor Evan Bayh started an initiative for local planning for child care and in 1995 the FSSA brought in a national child care advocacy organization to help forge public-private partnerships for child care. Governor Bayh's initiative, named the Step Ahead program, places the responsibility for planning, coordination, and implementation of comprehensive programs for families at the county level by volunteer boards. Several counties conducted pilot programs and now Step Ahead Councils have been established in each of Indiana's 92 counties. Each Step Ahead Council is governed by volunteer members, a coordinator who has administrative responsibilities, and a fiscal agent administering grants and contracts. The Indiana General Assembly appropriates $3.5 million per year for planning and service development distributed among the 92 Step Ahead Councils. Each Council receives a portion of these funds based on the population of single heads of households with children under age five. The Step Ahead Councils are also the primary administrative mechanism through which child care funding is distributed to the population.

The Step Ahead Program recently increased its prominence in the state government. Previously it was located in the Bureau of Child Development (created in 1992 within the Division of Family and Children within the FSSA). The Step Ahead Office is now located in the Office of the Secretary of the Family and Social Services Administration. Thus, it is now a central program in the FSSA.

The second major initiative focuses on public-private partnerships for child care. The FSSA sponsored a Symposium in 1995 in which the Child Care Action Campaign, a national child care advocacy organization, presented information to Indiana businesses and Step Ahead Councils on the importance of employer supported child care. Through donations from attending businesses, the Symposium generated seed-grant funding for the creation of the Indiana Child Care Fund. The Fund is currently being managed by the Indiana Donors Alliance (IDA) and it continues to raise corporate, foundation, and other private contributions to invest in strengthening the state's child care infrastructure (e.g., training and mentoring of child care workers), developing child care expertise across the state, and increasing public awareness of child care. The 1995 Symposium put into play significant county level efforts to create and nurture public-private partnerships. In Marion County, the Symposium project attracted support from the Moriah Fund to conduct outreach to business leaders, create a Grow Child Care Fund, distribute parent education brochures, and conduct local advocacy for better quality, and affordable child care for low-income families issues (Child Care Action Campaign, no date).

In terms of state use of federal grants, CCDF funds are being used to fund the voucher program, resource and referral agencies, school age child care, and to improve quality through increased training of child care workers. The state allocated four percent of CCDF quality funds to quality and training initiatives in each of its 92 counties. The only funds used to directly subsidize child care centers serving low income families is the federal Social Service Block Grant and the State School Age Child Care Project Fund. All other funds for subsidizing child care are through voucher programs which are administered through the Step Ahead Councils. Each Step Ahead Council has the authority to select the voucher agent for the county. In Marion County, the Council selected Day Break which is a for-profit corporation to administer the voucher program. The state also funnels the CCDF funds to improve child care quality to Step Ahead Councils. Thus, the Step Ahead Councils have significant control over child care resources in Indiana.[10]

Resource and Referral Agencies

Resource and Referral agencies in Indiana were started with CCDBG(now referred to as CCDF) and United Way funds. There is not a well organized advocacy presence in Indiana. Currently, the local Step Ahead Council chooses the Resource and Referral agent for the county. For Marion County, the R&R is Child Care Answers.[11] The R&R provides parents seeking child care with names and addresses of centers, homes (licensed and unlicensed) and ministries but does

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[10]The FY 1999 budget for Indiana combines $135 million of federal funds with $28 million state funds. Of the total $162 million child care funds, $138 million is allocated to the vouchers, voucher agents receive $11 million in administrative funds, approximately $4.5 million is allocated to the state for administration and automation, and programs to improve quality receive $8 million. These figures were collected by Research Assistant Kyle Wedberg.

[11]The funds have shifted to three different organizations and at this time Child Care Answers is the designated R&R. The YWCA and Day Nursery previously received state funds for R&R. The YWCA continues to sells resource and referral services to parents and corporations even though it does not have a state contract.

not give recommendations as to the quality of care. In the information provided to parents, there is no mention of whether child care centers are nonprofit or for-profit. All child care providers are eligible to register with the R&R free of charge but providers must be registered in order to receive referrals. Child Care Answers also conducts workshops to train child care workers but does not have the advocacy focus of the California network of R&Rs.

Case 3: Buffalo, NY

Located on the western edge of New York on the Lake Erie shore, Erie County covers 1,045 square miles making it the largest county in this study. However, its person per square miles is only 931 making it the least populated of the four cases. For this reason, this case encompasses the city of Buffalo and its immediate surrounding urban localities. 1992 data indicate Erie County had a population of 972,289. The population of Erie county decreased 4.3 percent from 1980-90 while New York's population increased 3.1 percent. Erie County's population is mostly Caucasian (86%) with 11 percent African American and 4 percent combined Latino, Asian and Native American. The industrial power of Buffalo decreased dramatically in the 70s. Some argue that it is now improving but serious employment problems persist. At this time, it is similar to many urban areas: poor minorities living in the downtown and middle class and affluent Caucasians living in the surrounding suburban areas.

Child Demographics

1990 census indicates that 52.5 percent of mothers with children younger than age six are in the labor force (Adams and Poersch, 1997). As Table 4-4 indicates, New York is lower than the national average for child death rate and teen birth rate but higher than the national average in percent children in poverty and extreme poverty and percent families headed by a single parent.

Child Care Industry Dimensions

In 1996 New York had 2,689 licensed child care centers, 14,543 regulated family child care homes and 1,881 regulated group/large child care homes. New York has a high number of family child care homes due to a state preemption law which mandates local government adoption of special zoning considerations for day care homes to facilitate the growth of this type of child care in residential neighborhoods (Cibulskis and Ritzdorf, 1989). Erie County had 187 child care centers, 302 family child care homes, 143 group family day care homes. Of the 187 centers, approximately 40 percent are single establishment for-profits, 13 percent are multiple establishment for-profits chains, 14 percent are Head Start programs, and 33 percent are nonprofits. My sample represents 10 percent of the total number of centers.

Accreditation

Statewide New York has 271 accredited programs (approximately 10 percent of child care centers). In Erie County, there are 18 accredited centers (approximately 10 percent of child care centers). This is higher than the national average of 6 percent.

Public Schools

During my data collection in 1996, New York did not have many public school child care programs. There were a few programs in high schools but these were specifically for children of teenage mothers. Soon after my data collection, New York approved a universal pre-kindergarten program for four year olds. However, the implemented program has not resulted in universal availability. In 1998 the state only funded thirty classrooms for the entire state. In Erie County there are plans to have two pre-kindergarten classrooms in the Buffalo Public Schools.

The first year was devoted to planning. Communities were to establish a community collaboration process, and submit plans by the end of January 1998 to begin the program the following September. The community could choose to support a full-day, full-year program but the program itself will only fund full-school day programs for 180 days a year. Both school and non-school settings are eligible and they may receive a minimum of $2,000 per year, per child. A total of $50 million was made available in 1998 to begin services. By the year 2001-2002, $500 million will be available.

Initially the public pre-kindergarten was not limited to low income families, but it subsequently has taken that focus. A major limitation of the Buffalo program is that the plans are for traditional nursery school sessions lasting only 2 ½ hours per day. With the new welfare reform, parents must be working or in training and therefore will need full-time care.

Regulatory Environment

In all the cases, the regulatory environment for child care centers is much more stringent than that for day care homes. But, in New York the contrast is more extreme. New York has a pre-emption law facilitating the establishment of day care homes in residential areas. This law mandates local government adoption of special zoning consideration for day care homes (Cibulskis and Ritzdorf, 1989). Day care homes submit documentation on an honor system rather than an inspection system and can begin operation immediately whereas child care centers must have several inspections by local and state officials prior to opening. Day care homes also do not have the staff qualifications requirements of child care centers. Day care home workers have to be 18 years old and have cared for children (this includes as a parent or babysitter) but are not required to have early childhood education. Thus, unlike the other cases, day care homes may present a significant source of competition for child care centers.

Child care is regulated by the New York Department of Social Services. In 1997 New York reorganized its Department of Social Services and its Division for Youth into the Office for Children and Families. This office is now responsible for regulating child care programs.

Licensing and Inspections

Licenses are renewed every two years and centers have a scheduled, on-site inspection. Centers have unannounced inspections at least once in the off year (Huffman, 1996). If the Department of Social Services receives complaints the center will be visited more frequently. To receive a license a person wishing to start a child care center must complete 30 separate steps including everything from participation in an orientation program, budget projections, to sample menus. The child care center must receive approval from a myriad of inspectors including: local building and zoning authorities, fire department, and health department. They must also get approval from the appropriate office inspecting the fire detection system and steam or hot water boilers. Each time the license is renewed, the center must be inspected again by the fire department, health department, and inspectors for the fire protection system and water heating system.

Program requirements

New York requires that centers establish written program goals for infants, toddlers, preschoolers and school-age programs. There must be a written daily schedule of program activities and routines. For children ages three years and older, each classroom must be divided into physical areas including (but not limited to): small motor, blocks, language arts, science, art, quiet, and gross motor areas. The state requires that each center prepare a written self-assessment of its program every other year.

Centers are required to have guidelines for discipline and inform all staff and parents of children in care at the center of the guideline contents. Corporal punishment is prohibited. New York State requires a minimum of 35 square feet for each child. Parents are allowed to visit the center at anytime. All employees and volunteers must be screened through the State Central Register of Child Abuse and Maltreatment. Centers can hire a person with a history of child abuse and maltreatment but they must keep a written record of why such person was determined to be appropriate and acceptable employee, volunteer, consultant or provider of goods or services. Child care centers must provide meals and snacks that meet the nutritional needs of the child as recommended by the United States Department of Agriculture Child and Adult Food Care Program (CAFCP).

Ratios

New York state regulates both ratios and group size. The ratios and group size are near NAEYC guidelines. For infants and toddlers they are slightly below NAEYC ratio guidelines but for four and five year olds the ratio is lower than NAEYC guidelines. New York State allows children ages three and over to participate in mixed age groups. But, the staff/child ratio used must be that ratio applicable to the youngest child in the group.

Group Size	8	10	12	14	16	18	20	21	24
6 wks - 18 mo	1:4								
18-36 mo	1:5	1:5	1:4						
3 years	1:7	1:7	1:7	1:7	1:6	1:6			
4 years	1:8	1:8	1:8	1:8	1:8	1:7	1:7	1:7	

5 years	1:9	1:9	1:9	1:9	1:9	1:9	1:8	1:8	1:8

Staff Qualifications

New York State sets minimum qualifications for directors, heads of groups, and assistants. There is some trade-off allowed between experience and educational level for both directors and heads of groups. For a center with less than 45 children, a director or full-time staff person must possess an associates degree in early childhood education (or two years of college including 12 credits of early childhood education), one-year of teaching experience, and one-year experience supervising staff. In a center with more than 45 enrolled children, a director or full-time staff person must possess a bachelors degree in early childhood education or related area in addition to the experience requirements. For heads of groups, the employee must possess an associates degree in early childhood or related area or a child development associate credential (CDA) and two years of experience. For staff persons, the only requirement is that they have a high school diploma or its equivalent or substantial experience in child care.

Training

Each staff person working with children must participate in training every two years. Training includes the following topics: principles of early childhood development, safety and security procedures, child abuse and maltreatment identification and prevention, and statute and regulations pertaining to child abuse and maltreatment. Centers must provide 15 hours of the in-service training each year.

Review process

For child care centers, DSS can impose fines, suspend, terminate or revoke the license or registration. If an enforcement action is taken the centers can request a hearing by the DSS Commissioner within thirty days of the receipt of written notice. If the public health or a child's safety or welfare is in imminent danger, a license or registration can be temporarily suspended or limited. In that case, the holder has 10 days from the date of the written notice of the suspension or limitation of the licensor registration to request in writing a hearing before the department. Hearings may result in civil penalties (maximum of $250 per day) or the decision to deny, reject, revoke, terminate, suspend or limit the license for registration. DSS can request the Attorney General to seek injunctive relief against providers for violations or threatened violations of laws or regulation. DSS is also allowed to publish in the newspaper the names and addresses of child care providers whose licenses have been rejected, denied, limited, suspended, terminated, or revoked or whom a fine has been assessed after a hearing.

Exemptions

If nursery schools are open for less that three hours per session, then they are not required to have a license. Religious affiliated child care centers are required to be licensed if they are open for more than three hours per session. The voucher program for child care allows parents to hire child care services from the informal sector (i.e., any unlicensed child care arrangement). For exempt caregivers receiving vouchers, New York is planning to set health and safety standards and provide technical support. But, there are no governmental oversight mechanisms for informal child care arrangements.

State Child Care Funding

New York ranks 4th in commitment to securing funds for child care and early education (Adams and Poersch, 1997). However, given the recent budget and policy decisions it will likely lead to a lower ranking in the years to come. New York reported in its CCDF plan its intent to continue reimbursement rates based on a 1994 survey, set in October 1995 through September 1998. This is effectively a cut in rates. New York will transfer between $45 and $50 million of TANF funds to the CCDF to fund child care subsidies. New York expanded its refundable child care tax credit to reach 100 percent of the federal credit in 1999 and created a two-part unified Child Care Block Grant. New York provides child care subsidies to about one in ten eligible children (Adams and Poersch, 1997).

In New York, the county governments administer the subsidized child care programs. New York allows local districts to set priorities for eligibility and counties to prioritize which populations of families to serve. Although there is an incentive to serve low-income working families (reimbursements to counties are 100 percent for these families compared to 75 percent for TANF families), there is some concern that some counties concerned about meeting TANF work participation requirements are targeting child care help to TANF families. If this occurs, it would decrease subsidized care available to working poor families. New York proposed, but has yet to release, a plan to set co-payments for each child receiving child care assistance with a local district option to add a surcharge based on the cost of care selected. For those counties requiring co-payments, this plan would negatively affect TANF families.

In Erie County, Department of Social Services administers the voucher programs. The amount of reimbursement depends on two factors. The first is whether the child care provider has a contract with DSS. Centers with DSS contracts receive a set fee regardless of the center’s tuition level. Also, DSS does not reimburse for absences, field trips, registration fees, or transportation fees. And, centers are not allowed to charge families using vouchers late fees or co-pays. Those centers without a contract receive their full tuition fee. Therefore, there are considerable incentives to not have a contract with DSS. The second reimbursement rate factor relate to whether the arrangement is in the formal or informal sector. If it is a formal sector arrangement, the reimbursement rate is based on a county survey of area licensed child care providers. The reimbursement rate is set at 70 percent of the market rate. If the arrangement is in the informal sector, the provider is paid on an hourly basis with a $9 per day maximum and $45 per week maximum. There is no requirement for background checks on informal sector providers.

<u>Resource and Referral Agencies</u>

The Child Care Coalition of Niagara Frontier, Inc. (CCCNF) is the resource and referral agency for Erie County. Similar to other R&Rs, they provide lists of child care options but do not provide recommendations. CCCNF receives state funding from the Department of Social Services to provide for activities including: consumer information and referral services, recruitment and training of providers, parent education, publicizing child care standards and regulations, enhancing employers support of child care services, and assuring access to the U.S.D.A. Child and Adult Food Care Program (Bureau of Early Childhood Services, 1996).

In the last year, DSS altered its training funding to increase incentives to provide quality training. Instead of funding the R&Rs directly, the funding now goes to a scholarship fund and child care workers (primarily in day care homes) are given training scholarships. The scholarship recipient can then choose whether she wants to receive her training at the CCCNF or at another program (e.g., community college) (Huffman, 1998).

Case 4: Charlotte, North Carolina

State government officials call Mecklenburg County North a “different animal” than the rest of the state. This is because 85 of the 100 counties in North Carolina are rural. Mecklenburg is an urban county home to the city of Charlotte and its fast growing surrounding urban areas. Population growth for the state from 1980 to 1990 was 8 percent but in Mecklenburg county population growth was 33 percent. Mecklenburg had a 1992 population of 537,735 and covers 527 square miles. There were 1,020 persons per square mile which makes the population density lower than Alameda but higher than Erie County. Similar to the other cases, the boundaries for interviews extend from Charlotte to surrounding urban areas. The rural parts of Mecklenburg County were excluded. North Carolina as a state is predominantly Caucasian (73%) and African-American (21%). Mecklenburg County's population has a larger African American population (25%) than the rest of the state. The migration to the Charlotte area has been mostly native English speakers. Only 5.8 percent of the population are non-English language speakers. In terms of racial and linguistic homogeneity, Mecklenburg and Marion counties are similar.

Child Demographics

1990 Census data indicate that 66.8 percent of mothers with children younger than age six are in the labor force (Adams and Poersch, 1997). North Carolina is near the national average on most indicators (see Table 4-4). It matches the national average of 21 percent of children living in poverty. Eight percent of children live in extreme property (the national average is 9 percent). North Carolina also nearly matches the national average of 26 percent single parent families. Where North Carolina surpasses the national average is in the child death rate, infant mortality rate, and teen birth rate.

Child Care Industry Dimensions

In 1997, North Carolina had 2,951 licensed child care centers, 271 licensed large child care homes, 4,564 registered small child care homes, 331 religious-sponsored unlicensed child care centers, and 4 religious-sponsored unlicensed large child care homes (Division of Child Development, 1997). In Mecklenburg County there are 311 centers, 64 large homes, 442 small homes, and 23 religious-sponsored centers (referred to as GS110, to be in exemptions section). My sample represents 8.4 percent of the total centers. In terms of sector breakdown for the county, approximately 26 percent of Mecklenburg centers are nonprofit and 56 percent of centers are for-profit. Research indicates that child care chains tend to locate in low regulatory environments (Gormley, 1991). In Mecklenburg County 17 percent of the centers are operated by non-local corporations (i.e., chains). The most prevalent governance structure for centers, in terms of number of establishments, is proprietary child care centers. These centers constitute 24 percent of total centers. It is important to note that this data includes child care centers for children under 5 and after school programs for school-age children. The after school programs are almost entirely run by the public school system and a few nonprofits.

Accreditation

There are 115 accredited centers in North Carolina which represents approximately 8% of centers. This is above the national average of 6 percent. There are 20 accredited centers in the Charlotte area representing 6.4 percent of total centers.

Public Schools

In 1997, the Charlotte-Mecklenburg school system began a program to serve low income preschool children. The target population is four-year olds who are not already in a preschool program and who are likely to have literacy problems. The public school program was initiated by Superintendent Dr. Greene who came to the Charlotte-Mecklenburg school system in August of 1996. Prior to this position he worked in a school system in Virginia that had a pre-K program. Establishing a similar program in Charlotte became his major initiative. Less than a year after he arrived the pre-K program started operating in the Charlotte-Mecklenburg schools. The initial goal was to serve 2,000 children in 1997 and expand the program to eventually serve 9,000 children. The public schools are working with the Success by Six organization, the City of Charlotte, Department of Social Services, Central Piedmont Community College, the Junior League, and the Carolina Medical Center to provide a comprehensive team approach to assisting low income, high need families. As the program expands, they plan to offer a program from birth to age five.

Some of the pre-K programs are located in elementary schools and the rest are housed in three centers. The pre-K program will run a regular school day (8:30 a.m. to 2:30 p.m.). They are going to try to provide before and after care on-site in subsequent years. The centers will be licensed and are planning to have a ratio of 1:9 and teachers are required to have a birth through kindergarten certificate or to be actively working on it. One of the centers is NAEYC accredited. Pre-K students will use the school transportation system with the other elementary school students.

There is no charge for students to participate in this program. The funding for the pre-K program comes from federal Title I funds (87 percent) and local funds (13 percent). The Title I funds were previously used for “pull-out” programs. These are programs in which children are pulled from the classroom to receive individualized assistance. The school administration decided to reallocate these funds because of a lack of positive results with the pull-out programs. The school administration is also writing grants but these funds would be for supplemental programs and not to fund operating expenses.

Unlike the California state system which was established during World War II before there was a formal child care industry, this program is being established within (and some believe on top of) a well established industry. The school system decided to create the new preschool program rather than relying on the existing infrastructure. When queried about this, the administration justified their choice by stating concerns about quality control. The public schools wanted to use a specific curriculum and could not be sure centers would implement it thoroughly (Pellin, 1997). The timing of the public sector’s entrance is creating a strong, negative reaction from those child care centers serving similar clientele.

Regulatory Environment

In 1993, the Department of Human Resources created the Division of Child Development. This decision reflected the growing importance of child care to North Carolina families. The Division of Child Development (DCD) oversees all aspects of child care services in North Carolina. It regulates child care facilities and responds to reports of illegal child care operations and allegations of abuse or neglect in child care facilities. It also oversees the state's subsidized child care program, offering financial assistance to help eligible families pay for child care. The DCD promotes education and training for child care workers, and administers other early childhood initiatives to improve the quality of care for all children in the state. In addition, they work with Family Support Programs and Family Resource Centers which are community-based programs providing necessary services to families. The Head Start Collaboration Office is also housed in the DCD. Thus, this office links various services for young children and their families (Fain, 1997).

Licensing and Inspections

Child care programs in North Carolina are either exempt, registered, or licensed. Exempt providers are described below. Registration is required for individuals to offer child day-care in their own homes to five or fewer preschool age children, including preschoolers living in the home. In addition, three school-age children may be enrolled. The provider's own school-age children are not counted for purposes of regulation. Registered day-care home providers must be 18 years old and literate, undergo a criminal records background check, and meet basic health and safety standards. Registration certificates must be renewed every two years. Licensing is required for any child care center or child care arrangement that provides child care for more than five preschool-age children. Religious-sponsored programs are exempt from some of the regulations described below if they choose not to be licensed (see section on exemptions). Child care centers and large day care homes may voluntarily meet higher standards to receive an “AA” license rather than an “A” license.

Passed in 1995, the Criminal Records Check law requires that all regulated child care providers (and all nonregistered home providers that receive state or federal funds) submit local criminal record checks and fingerprint cards to the Division for processing by the State Bureau of Investigation (SBI). Once results are received from the SBI, the Division determines which providers are qualified to care for children and sends notification of qualified or disqualified status to child care providers and their employers. Parents may ask to see evidence that their provider has gone through this process.

North Carolina requires an annual license renewal. DCD conducts an announced annual inspections within 60 days preceding the expiration of the license. The renewal application process requires an inspection by a local fire official.

Program Requirements

North Carolina requires that the activities must be planned and appropriate based on the ages of the children in care. Activity plans must be available to parents. There must be a balance of active and quiet activities. Rooms must be arranged to encourage children to explore and use materials on their own. For centers serving preschool age children, centers must have at least four activity areas available for each group of children. For infant and toddlers, each center must have three different age appropriate toys for each child. For "AA" license centers they must provide five activity areas for each group of children.

Corporal punishment is prohibited in all day care homes and centers. Each licensed center or large child care home must have a written policy on discipline, must discuss it with parents, and must give parents a copy when the child is enrolled. Religious-sponsored programs that notify the division of Child Development that corporal punishment is part of their religious training are exempt from that part of the law.

North Carolina requires each "A" licensed child care center to have 25 square feet of indoor space and 75 square feet of outdoor play area for every child. For "AA" licensed centers the space requirements increases to 30 feet indoor and 100 square feet outdoor.

North Carolina requires that each center have a plan to encourage parent participation. The plans must include: 1) a procedure for registering a child for services; 2) opportunities for staff to meet to with parents on a regular basis; 3) activities which provide parents opportunities to participate in the center's program; 4) a procedure for parents to access information or lodge complaints about the child care program.

Ratios

North Carolina has a two-tiered licensing system. "A" licensed center have higher staff/child ratios than "AA" centers. All centers have the same requirements for group size and staff qualifications.

Age[12]	"A" Ratio	"AA" Ratio	Group Size
0-1	1:5	1:5	10
1-2	1:6	1:6	12
2-3	1:10	1:9	20
3-4	1:15	1:10	25
4-5	1:20	1:13	25
School Age	1:25	1:20	25

[12] In 1993 the "Baby Bill" lowered ratios for infants, toddlers, and 2 years olds.
For mixed age groups, the staff/child ratio for the youngest child in the group shall be maintained for the entire group.

Staff Qualifications

North Carolina requires that the on-site administrator: 1) be at least 21 years of age and literate; 2) have either a high school diploma or its equivalent; 3) have two years of full-time child care experience or undergraduate, graduate or associate degree with at least 12 semester hours in child development or a related field, a Child Development Associate credential or completed program of study in early childhood at a community or technical college; 4) complete or be currently controlled in three quarter hours or 33 clock hours of training in the area of child care program administration; or have one year of experience performing administrative responsibilities, have one-year experience performing administrative responsibilities and have another full-time staff person who meets qualifications 1-3. If the administrator is off-site, she only has to meet part four of the above requirements.

Teachers must be at least eighteen years of age, literate, and have a least one of the following: 1) a high school diploma or its equivalent and one-year experience or some training in early childhood; 2) the Child Development Associate credential; 3) graduation from a child care or early childhood curriculum program at a community or technical college; 4) an undergraduate or graduate degree with at least the equivalent of four semester hours in child development; 5) five years of experience working in child care. An aide must be 16 years old and literate.

The North Carolina legislature is considering a bill to strengthen the state's licensing standards for staff qualifications. House Bill 464/Senate Bill 929 requires the following training standards for child care centers: lead teachers (by 2002) will be required to have an early childhood credential (two courses at community college) and directors (by 2003) will be required to have a NC Early Childhood Administrative Credential (through a community college); all teachers must take 20 hours of training annually.

Training

At least one staff member must be knowledgeable of common contagious and infectious diseases. For centers with less than 30 children, one staff member must be trained in basic first-aid. If the center serves from 30 to 79 children, two staff members must be trained in first-aid. If there are more than 80 children served then three staff members must be trained. Each center must have one person on premises who has cardiopulmonary resuscitation training. At least two staff (including the administrator) must have at least four clock hours of training in safety. Each new employee must received 10 clock hours of orientation within the first six weeks of employment. Each employee must receive a certain number of in-service training. The number of hours varies from five hours for someone with the four-year degree to 20 hours for someone without any training.

Review process

If a center fails inspection, it is granted a provisional license. The operator must be notified by registered or certified mail of the reasons for the issuance of a provisional license. If an operator violates any provision of the licensing standards, a civil penalty can be levied not to exceed $1,000 for each violation. If the Department seeks to suspend or revoke the license, a registration certificate, or Letter of Compliance, the operator has

30 days to file a petition to contest the case. A hearing must be scheduled within 120 days of the date the petition for hearing is received. To close a facility the Secretary of Human Resources or his/her designee may seek injunctive relief in the District Court of the county in which the child care facility is located. The District Court may grant temporary, preliminary, or permanent injunctive relief.

Exemptions

According to North Carolina law, if a person cares for less than three unrelated children under 13 years of age or if a person cares for children less than four hours per day then the arrangement is exempt. The law allows religious-sponsored centers (referred to as GS110) and religious-sponsored homes to choose to operate without obtaining a permit. They receive a Notice of Compliance instead of a permit. These facilities and homes must meet minimum health and safety rules. They do not have to meet rules about staff qualifications, yearly training hours, and rules related to activities for the children. Unlike Indiana, religious-sponsored centers must maintain the staff-child ratios similar to "A" licensed centers. Notices of Compliance are printed on Division of Child Development letterhead stationery but posting of the letter of compliance is not required. These religious-sponsored centers and homes can practice corporal punishment but they must notify the state of their practice. The state requires that exempt providers meet basic health and safety standards, complete a first-aid course, and undergo criminal background checks.

<u>State Child Care Funding</u>

While North Carolina has low regulatory standards, it ranked 10th in the state for commitment to securing funds for child care and early education (Adams and Poersch, 1997). This is due in large part to a pro-child governor's administration. In 1992 Jim Hunt was elected governor with a platform highlighting child care. In his inaugural address he launched the Smart Start program, an innovative public-private partnership arrangement to improve the state's service to children ages zero to five. The North Carolina Partnership for Children is a 501(c)3 nonprofit organization that administers the Smart Start program. Within each county there is a corresponding nonprofit Partnership for Children organization. The boards of these organizations include representatives from business, religious organizations, social services, education, health, and parents of young children. The county Partnerships for Children first determine the needs of the children. Second, they assess the resources available to meet those needs. Third, they determine the approach to be taken in the county. There are considerable state resources devoted to Smart Start. In 1996, North Carolina added $22 million in state funds to the program allowing it to reach every county in the state. In fiscal year 1998-99 Smart Start received $41million.[13]

In 1990, North Carolina started the Teacher Education and Compensation Helps (TEACH) program to provide scholarships to child care workers. The program is funded by state and federal monies with additional funds from foundations and corporate contributions. North Carolina General Assembly provided $1.422 million in 1997. From

[13]The total amount allocated for child care in fiscal year 1998-99 is $285 million which is comprised of: $184 federal funds, $60 million in state funds in addition to the $41 million in Smart Start funds. These data were collected by Research Assistant Kyle Wedberg.

1993 to May 1997, 4,326 child care workers have participated in the program. The program is administered by the Day Care Services Association. This organization administers the TEACH program in five other states.

All subsidized child care funding is under the administration of the Division of Child Development. In 1996 North Carolina transferred approximately $6 million from TANF into the CCDF. Approximately $3.7 million was allocated for subsidized child care. The state increased its eligibility limits to receive subsidized child care from 43 percent of state median income to 75 percent, adjusted for family size. This substantially increased the number of families eligible for subsidized child care. But funding levels allowed Mecklenburg County to serve all eligible families. Currently there is no waiting list for families to receive subsidized child care. Of the four cases, this is the only one able to serve all families needing services. To encourage centers to upgrade to the AA license, North Carolina reimburses these centers at 110 percent of the market rate. To discourage unlicensed child care facilities, child care homes without licenses receive 50 percent of the market rate.

Resource and Referral Agencies

The North Carolina Child Care Resource and Referral Network is a statewide network that provides local R&R agencies an opportunity to strengthen services and to meet certain standards of quality established by the Network. Similar to California, the North Carolina Child Care Resource and Referral Network is in an important link in the child care advocacy community. In 1996, the General Assembly passed legislation requiring the establishment of the database of child care resource and referral information for public access. The database is now operational and contains information to unregulated child care providers, such as location, contact information, hours of operation fees, type of license, and record of compliance. The database is accessible to the public via the Internet.

Child Care Resources Inc. serves as the R&R agency for Mecklenburg and five other counties. They provide general resource and referral to parents and in 19 counties they provide corporate resource and referral. The agency was created in 1982 by the United Way and Mecklenburg County. Child Care Resources started out by taking over distribution of child care supplements from the county welfare office. The agency has now grown to 52 employees and a yearly budget of $2.7 million. It administers $25 million in government subsidies to help the working poor pay for child care. Child Care Resources holds a number of workshops for both child care center and family day care workers.

Conclusion

Table 4-2 summarizes the regulatory environments for the four cases. Indiana and North Carolina allow greater exemptions than New York and California. Both allow religiously sponsored centers exemptions from some regulations and do not require that they be licensed. Indiana and North Carolina have significantly lower educational requirements for teaching staff. And both states have higher staff/child ratios for four and five years olds. Public school programs operate in California (high regulatory environment) and North Carolina (low regulatory environment). These two cases alter the competitive mix of centers in the local child care industries. This research design provides a rich empirical environment to explore variations in the institutional arrangements for child care.

Chapter 5
Empirical Findings

Introduction

This chapters tests the ten hypotheses associated with Research Questions 1-4. For your reference, Table 3-1 summarizes hypotheses one through three and Table 3-3 summarizes hypotheses four through ten. The data are analyzed using quantitative techniques where appropriate and qualitative data as supplemental analysis.

H1: Entrepreneurial Motivations

This hypothesis tests for variability in entrepreneurial motivations within the for-profit and nonprofit sectors. Market/Government Failure Theory carves a niche for the nonprofit sector to deliver goods and services to the segment of the population with excess demand. Therefore, we should see all nonprofit centers targeting under served populations. Traditional economic theory assumes for-profit entrepreneurs seek to maximize profits above all other motivations. Therefore, we should see all for-profits targeting high end populations since this is the most profitable segments of the child care industry. While tuition level has a direct impact on profitability, the issue of size is critical to child care profitability. Centers serving large numbers of children or enterprises operating multiple centers may be able to realize economies in scale. Thus in the analysis of entrepreneurial motivations both size and clientele become important indicators for judging profit potential.

For -Profit Sector

There are three for-profit governance structures analyzed in this discussion: public corporations, private corporations, and proprietary businesses. Table 5-1 presents descriptive statistics for the capacities of the three for-profit governance structures.

Public Corporations

Of the eight public corporations interviewed, two were on-site corporate child care centers. In both of these cases, the corporation contracted with a for-profit child care company to deliver services. These child care centers are legally part of the for-profit corporation but the emphasis is on providing a benefit or service to employees. The remaining six are fast growing corporations producing child care services at the regional or national level. Excluding on-site corporate child care, public corporate child care centers are clearly profit motivated entities. Business people such as Perry Mendel started KinderCare because he thought it would be a profit generating enterprise. And, indeed, it has become one, with stock traded similarly to corporations making computer chips. As of January 1998, KinderCare Learning Centers had 1,146 centers with a capacity of 143,420 children (Neugebauer, 1998). In terms of size, the median capacity for public corporations (for the eight centers surveyed) was 162 which is the largest of the for-profit governance structures (see Table 5-1).[1] In terms of clientele served, one surprising finding is that the public corporations serve a range of incomes. I expected public child care corporations to serve primarily middle to upper income populations.

[1]The variances for center capacities by governance structures are extremely high. Center sizes range extensively creating mean values quite different than the median values. Given extreme values at either end, the median capacity figures are reported.

But, two of the six public corporations serve low income. However, with larger capacities and large numbers of centers, public corporations are best able realize significant profits and there is no question that profit is the primary motivation.

Private Corporations

Private corporations are more akin to proprietary than public corporate child care centers. While these private corporations may be quite profitable, the centers surveyed indicated that the owners are not interested in the aggressive growth strategies of the public corporate child care industry. Of the four private corporations surveyed, one has a single location and the others have two or three locations. Three of the owners indicated they were not interested in opening additional centers, and the fourth indicated she would like to open one additional center. Of the four private corporations in the sample, three were family businesses serving upper income clientele for which the decision to incorporate was mainly for liability reasons. As discussed in Chapter Two, incorporation allows the owners to limit personal liability if the business fails. The fourth center was started with public-private funds to serve a low income area. The median capacity for these private corporations was 155 children.[2]

Proprietary Businesses

The interesting variation in entrepreneurial motivations in the for-profit sector are found in the proprietary centers. Based on interviews with owners, entrepreneurial motivations of the 34 proprietary child care centers can be grouped into four main

[2]See Hypothesis 4B for the discussion of capacity. Centers with capacities over 120 are categorized as large.

categories: business person (6), early childhood professional (7), mom (5), and on-site owners(14).[3] Each category has a different motivational orientation. All of the centers in the business person category are owned by people who have other businesses and a child care center is just one of his/her many entrepreneurial ventures. All of the owners are absentee and do not have previous child care experience. To the other extreme, early childhood professional owners have formal education in early childhood and a commitment to a particular child development philosophy. They started centers to apply their philosophy. A third category of proprietary centers were started by mothers of young children. These women started child care centers primarily so that they could be near their own children. None of these women had business experience prior to opening a center and some did not have any early education training. The final and largest category is the on-site owner. These are people who started a child care center as their primary vocation. They are physically present at the child care center and are involved with the day-to-day operations. Most of these businesses are run by families and there are a variety of business backgrounds and early childhood training among the on-site owners. Some have significant experience in early childhood and others opened businesses with little or no knowledge.

The interesting aspects of proprietary entrepreneurial motivations becomes clear when examining the clientele and capacities of these centers. Any profit minded

[3]There are two centers that do not fit into the proprietary categories. One was started by a public-private venture and is a profit-oriented center. The other is a highly successful family owned chain which changed from proprietary to public corporation during the study.

entrepreneur would not choose to serve low income clientele (unless there were subsidies at market rates). Or, if they did, they would build a center large enough to benefit from economies of scale.[4] Therefore, we would expect to see proprietary centers serving upper income clienteles in centers with large capacities. However, as Table 5-2 indicates, 14 of the 34 centers serve low income populations. Of those centers, moms and on-site owners comprise 11 of the centers serving low income families.[5] We would expect that if a proprietary center served low income families, then the size of the center would be large enough to realize economies of scale. However, the median capacity for on-site owners serving low income families is 48 whereas the median capacity for on-site owners serving upper income is 119. Thus, on-site owners serving low income also have smaller centers (See Table 5-3). This indicates an extremely limited potential for profit.

Of the 13 proprietary centers serving upper income, four were started by early childhood professionals, four by on-site owners, two by business persons, two by moms, and one by a public-private venture (see Table 5-2). We might assume that all of these entrepreneurs were motivated by profit. But, a closer examination reveals significant variation in capacity which, in turn, may signal other motivations. Early childhood

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[4]In an interview with a child care consultant, I was informed that the break even size for building a new child care center is 130 (Solomon, 1998). However, many centers are converted buildings and therefore economies of scale may be realized at smaller capacities.

[5]The one business person serving a low income population indicated that he had made a poor business decision. He bought the center assuming that the subsidy rate paid by the county would allow him to make a profit. This was not the case and he is unable to sell the business without incurring a loss. The one early childhood professional serving low income specializes in developmentally challenged children, many of which are low income. This owner charges a lower tuition in order to serve the target clientele.

professionals tend to establish small centers. The median capacity was 44 (Table 5-3). Interviews with the owners indicated that their commitment is to a certain type of early childhood experience and financial concerns come second. However, since over half of centers started by early childhood professionals serve upper income, there is the possibility that these owners are able to achieve both. However, unless the tuition is very high, the small size of centers limits the potential for profit. Business persons serving upper income clearly are interested in profit first and foremost. These centers are large (capacities over 120). On-site owners of centers serving upper income were both committed to their businesses and, with the exception of one owner, have significant early childhood education backgrounds. Three of the on-site owner centers are large (one is smaller with a capacity of 67) and have the potential for profit. Of the two moms serving upper income, one has a small center with 20 children and the other is a large center with 176. The larger center was started by a mom back in the 1980s before there were many child care centers in the area. The demand for child care was high and her business grew from a day care home into a large center with significant profit potential. While her original motivation was to stay with her children, over the years she has become a savvy business woman who has been able to build a successful business. The owner of the smaller center opened within the last year and the business mainly serves as the means for her to stay with her small children. If there are profits, they are minimal.

This analysis of the for-profit sector demonstrates significant variation in motivations of entrepreneurs. There are people starting child care centers who are more interested in child development or staying with their own children than in profit. There are also people who have started centers and rely on the center for their primary income. These people are obviously concerned about profit but it may not be the only aspect of the business in which they are interested. Child care is a demanding profession and on-site business owners, early childhood professionals, and moms choosing to open child care centers do so because of a commitment to young children.

An interesting addition to entrepreneurial motivations is whether these owners considered incorporating as a nonprofit rather than starting a for-profit enterprise. In many cases, on-site owners and moms were unaware of what nonprofit incorporation entailed. Especially for those owners with little business background and serving a low income population with small capacities, owners never considered nonprofit incorporation even though they are making little profit. For many owners of these small businesses, they are counting on selling their centers to finance their retirement. The early childhood professionals choosing to organize as for-profits did so for two reasons. Three of the center owners thought they were too small to be worth the trouble of incorporating. The other center owners feared that the requirement of having a board of directors would limit their ability to control the quality of the center (i.e., adherence to the owner's early childhood development philosophy). Some of the early childhood professional owners complained bitterly about the bias against for-profits in child care. They felt strongly that they were delivering quality child care and that they should be treated similarly to nonprofit child care centers in terms of access to grants and taxation. For business persons and on-site business owners, some were aware of the tax advantages of nonprofit status and were considering switching over for that reason. Thus, the decision to start a for-profit versus a nonprofit, at least in some cases, appears to be a function of limited knowledge regarding nonprofit status, concerns about control issues, and a desire to retain financial ownership of the center.

<u>Nonprofit Sector</u>

The longevity of some of the nonprofit child care centers made it difficult to determine the motivation of the original entrepreneurs. But, for many, I was able to learn the original motivation for starting the center and, more importantly, the motivation currently driving decision making.

Independent Nonprofit

Of the 17 independent nonprofits[6], four were started by churches (see Table 5-4). Two were originally incorporated as separate nonprofits by the church. Of these two, one was created to teach Afro-centric curriculum to a poor, African-American neighborhood. It is housed in the church and the center director reports to the pastor of the church. The other was created in 1911 by Catholic nuns to serve low income children and currently serves a public housing complex. The remaining two were started under a church's nonprofit status and later incorporated separately. These two centers serve more affluent populations. One is a Unitarian based center with a unique orientation to early childhood. The other grew from a traditional nursery school program into a full service child care center. In all four of these centers there is a philosophical commitment to serving a low income clientele or a particular approach to early childhood education.

[6]For one independent nonprofit it was not possible to determine the motivation of the entrepreneur because significant time had passed and the current director did not have sufficient knowledge of the institutional history.

Five of the independent nonprofits were started by early childhood professionals. Two of these centers serve high income clienteles. When I asked the original founder of a very upscale center about the choice to incorporate as a nonprofit, she replied that since she wanted to serve high income she did not want parents to think she was profiting. This center serves an extremely wealthy, highly educated clientele who, the owner felt, would question the high tuition rate if she had organized the center as a for-profit. In this case, nonprofit incorporation was chosen for reputational and legitimacy issues. The original founder indicated, rather defensively, that the center delivers the same level of service as it would if it were organized as a for-profit. This center had the highest pay rates for the Berkeley/Oakland case and the most extensive administrative overhead given its capacity of 110.

There were two centers started by early childhood professionals who serve middle income families. One started in 1948 as a nursery school and has grown into a large center with strong ties to the surrounding community. It now is the focal point of the surrounding community and the director makes extensive efforts to meet the needs of the community's parents of young children. It is an exemplary program that has received national recognition. The other was started by a retired administrator of a public school early childhood program. She originally planned to open two centers, one nonprofit and one for-profit but she never found the time to open the second center. The for-profit center would have provided her with an investment that she could later sell to finance her retirement. But, she indicated that both centers would have been run similarly. Thus, her decision to open the nonprofit before the for-profit is the only reason the center is a nonprofit. The final independent nonprofit specializes in after school care for school age children. It has 30 programs of which two are pre-kindergarten and one is a preschool. This nonprofit primarily contracts with public school systems or leases buildings from public schools to deliver services. As a nonprofit, it is eligible for many grants and contracts not open to for-profit enterprises.

Two of the independent nonprofits interviewed were started by parents and are now operated by paid administrators. Parent cooperatives were prevalent in the 1970s but now that mothers have entered the workforce, few people are interested in the energy and time it takes to maintain a cooperative. Accordingly, parent cooperatives have evolved into more formal organizations. One was a Montessori preschool started by parents in 1963 that now has a formal board of community leaders with a strategic planning focus. In the reorganization, parents now have a separate board that is focused on special events rather than running the school. The other center was started by graduate students and now has shifted to serving the general public. It does not have a functional board and seems to be an orphaned program. The director is not well trained and has little interest in early childhood. The budget is tight and enrollments are down. Without leadership from the director or the board, employees have very little commitment and even though this center specializes in infant care which is in short supply, the center had openings. While the Montessori program is growing into a full fledged school, this former parent cooperative has been unable to make the transition. It appears to be a tragedy of the commons and, in this case, the “commons” is the children.

Two independent nonprofits were started with public funds to serve low income populations. One was started on the grounds of a state psychiatric hospital to serve employees and the general public. Currently, the public funds are dwindling and the center will likely close because of difficulty in attracting non-employees. The other center relies on a variety of public funds to serve a poor, African-American population. In both these cases, the centers are dependent on public funds to remain open.

The final two independent centers were clearly for-profits in disguise as nonprofits. Both were started by savvy business people who were knowledgeable about the benefits of nonprofit incorporation. Both formed for-profit management companies and nonprofit centers. The nonprofit centers then contract with the for-profit management companies to run the center. In this way, all "profits" can be paid to the management company as part of their fee. One is a fast growing chain with three locations serving upper income suburban areas. The other has grown to four locations by securing public contracts with local governments. At the center I visited, the clientele is middle income drawn from parents working in the surrounding industrial area.

Within the independent nonprofit governance structure there is considerable variation in entrepreneurial motivations. For at least one center, nonprofit incorporation is used as a signal of trustworthiness to well informed parents. For another, the choice of nonprofit incorporation is mere happenstance. For some nonprofits, the incorporation decision was made a long time ago and has little to do with current operations. For still others, the nonprofit incorporation represents an ongoing philosophical commitment to serving the community. Similarly to the proprietary for-profit centers, centers choosing to organize as independent nonprofit do so for a variety of reasons, not all of which conform to nonprofit theoretical assumptions.

Sponsored Nonprofit

The 20 sponsored nonprofits interviewed are divided into three categories: outreach/charity, public funds, and on-site child care. In all of the outreach/charity sponsored nonprofits, the centers were established to target an under served population such as low income, special needs, teen mothers, etc. Of the 14 centers in this category, eight serve low income populations. The parent nonprofits for these centers have a human service mission targeting low income populations. Five of the remaining outreach/charity centers target an under served population but, in order to maintain the center financially, also enroll private pay children. This is the case for the four mixed income centers and one of the upper income centers. The tension between mission and financial constraints presents a difficult trade-off for many of these nonprofits. Their mission is to serve poor families, but if they enroll too many then they cannot remain financially solvent. For some, the parent nonprofit consistently subsidizes the center. An example of this dilemma is a center that was started to provide child care to preschool children with special needs. The center lost its supply of preschoolers in 1988 when the federal government required public schools to provide special needs preschool programs. Currently, it struggles financially and is subsidized by its sponsor. The director started enrolling upper income children without special needs to remain financially solvent. For those child care organizations primarily targeting low income populations, it often is the case that a choice must be made to decrease the number of low income served in order to cross subsidize with private paying clients.

In other cases, the parent nonprofit establishes a center serving a more affluent clientele to cross subsidize its centers serving low income. An example of this is a nonprofit organization established by a women's charity group at the turn of the century. Currently the parent nonprofit runs six child care centers. Five of the centers enroll low income families but at the sixth center the parent nonprofit has a contract with the federal government to deliver child care services to federal employees. This clientele is upper income and the revenues from the center can be used to cross subsidize the five low income centers.

The second category, public funds, all are centers established with public funds to provide child care for an under served population. One bilingual child care center was established to provide Spanish speaking early child care services to a Latino community. Another combined public funds with private funds to start a child care center for low income families. And, the third utilized public funds and nonprofit funds to establish a child care center for special needs children.

The final category is on-site child care. Three centers were established to serve children of employees. With the exception of a center at a hospital, these on-site child care centers serve upper income families. But, even though these centers serve upper income, the emphasis is on providing an employee benefit rather than generating surplus for the parent organization. The hospital center subsidizes child care for its employees which creates a clientele with a range of incomes.

With the exception of the three on-site child care centers, all of the sponsored nonprofits target under served populations. Market/Government Failure Theory predicts this: nonprofits will form to deliver services for under served niches.

Religious-Sponsored Nonprofit

The most interesting variation in entrepreneurial motivations occurs in the religious-sponsored nonprofit child care centers (see Table 5-4). Church services are often thought to be synonymous with charity. We might expect church sponsored centers to serve poor families. Or, we might expect church centers to form to provide child care for their congregations. But, the data indicate the motivation for starting church-based centers rarely is to serve a low income population or the congregation. Of the 16 religious-sponsored nonprofits interviewed, only one serves low income families. As Table 5-4 indicates, 12 centers (75% of centers for this governance structure) serve upper income families, two centers serve middle income, and one serves a mix of upper and middle income families. Upper income families have the greatest range of child care choices and are the most targeted population in the child care industry. In terms of serving their congregations, none of the centers interviewed had enrolled more than a couple of church members' children. These centers may reserve a portion of slots for church members' children or place these families higher on the waiting list. But, the overwhelming enrollment at these centers is children from non-church member families. Thus, not only are religious-sponsored nonprofit centers not targeting an under served clientele, they are also not targeting their congregations. Rather, they are targeting the affluent families in their communities.

The reason for religious-sponsored nonprofits targeting affluent clienteles appears to relate to the financial needs of the church. Surprisingly, the relationship between the church and the child care center is the reverse of the sponsored nonprofits. In the sponsored nonprofits, typically the child care center has a separate budget but can rely on the parent nonprofit to support the center if it is not able to cover costs. As Table 5-4 indicates, in only two of the religious-sponsored nonprofits was this the case. Both of these centers are sponsored by Jewish Community Centers and their budgeting processes function similarly to the sponsored nonprofits.[7] In 11 of the 16 religious-sponsored centers, the centers pay portions of their revenues to the church. In two of the cases, directors informed me that the child care center is a significant source of revenue for the church. In both these centers, directors were frustrated by how church financial demands constrain their ability to deliver quality services. In other cases, directors reported that the child care center is making significant revenues so that paying the church does not negatively impact quality of services delivered.[8]

Once clientele and the relationship with the church are combined, it reveals a surprising motivation for establishing church-base centers. On the whole, these centers are expected to be self sustaining and, for most, to provide a revenue source for the church. Based upon directors' assessments, some church-based centers are able to maintain quality and pay a portion of their revenues to the church. However, others are

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[7] In three of the centers financial information was not provided.

[8] This is based upon the interviewees' responses and not based on an objective measure of quality.

forced to make compromises on quality (e.g., hiring less qualified teachers, paying lower wages, not offering benefits) because of limited budgets. Thus, the motivation for establishing religious-sponsored nonprofit child care centers is not to deliver services to under served populations in the community. Rather, it appears more likely that the motivation is to generate revenues from a building otherwise unused during weekday business hours. However, given the clientele served by these religious-sponsored nonprofits, church revenue generation does not necessarily mean that these centers scrimp on quality. Because of the clientele they serve, it may be possible to achieve both objectives.

Hypothesis 1 predicted significant intra-sectoral variation in entrepreneurial motivations. This is indeed the case. In the for-profit sector, proprietary child care centers were established for a variety of reasons some of which are clearly to maximize profit but for others the center was established to practice a particular philosophy or to be near one's children. In many cases proprietary center owners were unaware of the option to incorporate as a nonprofit enterprise. In the nonprofit sector, independent centers had the greatest diversity in entrepreneurial motivations. Nonprofit incorporation served as a signaling device for upper income centers and for others it represents a commitment to serving the community. Religious-sponsored centers demonstrated similar motivations however these motivations are contrary to nonprofit theory and contrary to what most expect from church-based services. These diverse entrpreneurial motivations raise the issue of how well sector, or governance structure for that matter, can be a causal factor in determining adoption of quality enhancing policies. Many center owners in the for-profit sector and directors in the nonprofit sector indicated that if they switched to another sector it would not affect service delivery. If this is indeed the case, then the ability to predict quality based upon sector is highly unlikely. This issue is the subject of Hypothesis 2A.

H2A: Governance Structure and Quality Enhancing Policies

Chapter Three examined previous empirical child care studies exploring quality differences between sectors. Early research found quality differences but the most recent study (CQCO, 1995) found intra-sectoral variation greater than inter-sectoral variation. Thus, one of the hypotheses to be tested in this dissertation, H2A, is whether dividing sectors further by their governance structures helps to explain variation in quality.[9] Accordingly, child care centers were divided into seven governance structures. The for-profit sector was divided into proprietary, private corporation and public corporation governance structures and the nonprofit sector was divided into independent, sponsored, religious-sponsored governance structures. There is one category of public governance structure since all the public sector centers were produced in public school systems with similar governance arrangements.

To test whether governance structure better explains variability in adoption of quality enhancing policies than sector, first an index was created for the dependent variable. The Quality Enhancing Policy index (QEP) is based upon the center's policies

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[9] In this research the quality measures are at the collective-choice level. This means that they are policies which, if adopted, are likely to result in quality service delivery. As discussed in Chapter Two, this is a different approach than previous studies in which child care services were directly measured for quality at the operational-choice level.

to: attract and retain skilled teachers, teacher/child ratios, education level of the curriculum designer, parental involvement, and accreditation (refer back to Table 3-2 for a more detailed description). In order to create the Quality Enhancing Policy index, first it was necessary to create an index for attracting and retaining skilled teachers. Data was collected on educational levels of teachers, benefits packages, and wage rates. Education of teachers and benefits packages are categorical variables. Wage rates is a continuous variable. Wage rate data was converted into a categorical variable by separating the four states (to control for state wage differences) and dividing wages into quartiles. Centers were then ranked by their wage position in the quartiles. After converting wages rates into a categorical variable, all three variables were tested for scale reliability using the Cronbach alpha statistic. Using Stata, the alpha command computes the interitem correlations or covariances for all pairs of variables specified and computes the Cronbach alpha statistic for the scale formed by the variables. The Cronbach alpha statistic indicated the three combined variables have a 74.2 percent scale reliability coefficient. Systematic dropping of one variable indicated that both wages rates and teacher education decrease scale reliability which means that both variables should be included. Teacher benefits increased reliability by .7 percent (indicating it should not be included) but because the increase is minor I included teacher benefits in the index. Each variable has a scale of one to four allowing for equal weighting. The combined index for retention (wage rates, teacher benefits, teacher education) ranges from a minimum of three to a maximum of 12.

To create the QEP index, I followed a similar approach described above. The combined five variables (using the retention index variable created above and parent involvement, accreditation, teacher/child ratio, and education level of the curriculum designer) yielded a 74.4 percent scale reliability coefficient. Each variable was systematically dropped to determine its effect on the scale reliability coefficient. Omitting the education level of the curriculum designer variable increased the scale reliability (to 76.6 percent). Therefore, this variable was omitted from the index. The remaining four (parental involvement, teacher retention, accreditation, and teacher-child ratios) were included. Each variable was converted to have a maximum value of four to allow each variable to have an equal weight. The variables were then summed to create an index ranging from a minimum of four to a maximum of 16.

Both governance structure and sector were regressed on the QEP index.[10] Each regression equation translates the independent variable (sector or governance structure) into a series of dummy variables. For sector there are dummy variables for nonprofit and for-profit with public sector being the omitted category. For governance structure there are six dummy variables (proprietary, private corporation, public corporation, independent nonprofit, sponsored nonprofit, and religious-sponsored nonprofit) with public sector being the omitted category. Regression results in Table 5-5 indicate that, as expected, sector (for-profit versus nonprofit) is not significant in explaining adoption of

[10]QEP scores range from a minimum of 4 to a maximum of 16 and were calculated for 79 of the 105 centers. The remaining 26 centers had a missing value for one or more variables used in the creation of the QEP index. Centers with missing values were replaced with the mean QEP score (9) to increase the number of cases included in the analysis.

quality enhancing policies. However, the F-statistic indicates that the sectors have significantly different scores on the quality enhancing policies (QEP) index.

For the governance structure regression, presented in Table 5-6, the F-statistic indicates that governance structures have significantly different scores on the QEP index. Of the governance structures, only proprietary centers were significant (at the 10 percent level).[11] Since public sector is the omitted category, the interpretation of the proprietary coefficient is that the average QEP score for proprietary centers is 2.04 units below that of a public center (the omitted category).

Comparing the two regressions, the adjusted R-squared indicates that sector only explains 16 percent of the total variation in QEP and governance structure explains 20 percent of total variation.[12] Thus, neither governance structure nor sector appear to explain why some centers adopt more quality enhancing policies than others.[13] But, as the discussion below indicates, this cannot be interpreted as meaning that because there is not a direct causal link there is not variation in QEP by sector and governance structure.

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[11]Public sector has the same significance level for both sector and governance structure regressions because it is the same variable in both regressions.

[12]The measure R-squared, also known as the coefficient of determination, is the proportion of the total variation in the dependent variable explained by fitting the regression. The higher the R-squared the better the independent variables explain the dependent variable. The *adjusted* R-squared decreases R-squared by reducing the effects of random influence and irrelevant regressors.

[13]Since these are both simple regressions there is a potential for introducing bias due to model misspecification. If there is an omitted variable that interacts with either sector or governance structure then the estimates would be biased. However, examining the correlations between sector and governance structure to the independent variables examined in Research Question 3 and 4 indicate that correlations are minor. Therefore, I do not believe bias has been introduced by using simple regression.

An examination of mean QEP scores between governance structures and sectors reveals some interesting relationships. Comparison of for-profit and nonprofit means indicates a highly statistically significant difference. Nonprofit mean QEP score (10.1) is higher than the for-profit mean QEP score (7.7) and the difference is significant at the .001 percent level. Breaking the analysis into governance structures indicates intra-sectoral as well as inter-sectoral variation. Proprietary centers had the lowest mean score of 7.3 whereas independent nonprofits, sponsored nonprofits, and religious-sponsored nonprofits all had mean scores over 9.[14] Religious nonprofits had the highest mean score of all the governance structures at 11.2. In the for-profit sector the proprietary centers had lower mean scores than public and private corporations but the sample only includes four private corporations and eight public corporations which does not allow for reliable significance tests. In the nonprofit sector, independent nonprofits (mean score 9.3) and religious-sponsored nonprofits (mean score 11.2) had statistically significant differences in means at the 10 percent level. Comparing means between proprietary centers and the nonprofit governance structures indicate the proprietary center means are significantly lower than independent, sponsored, and religious-sponsored nonprofit means (see Table 5-7).[15] Thus, while neither sector nor governance structure explain the variation in QEP

[14]Mean scores for public corporations (8.6), private corporations (9.3) and public sector (9.3) are based on small samples and are not reliable.

[15]Z-Tests were not performed between the nonprofit governance structures and private (n=4) and public corporations (n=8) because the small sample sizes would not yield reliable results.

well, there are significant differences between sectors and governance structures in their mean scores on adoption of quality enhancing policies.

Returning to the discussion in Chapter Two, existing nonprofit theories make the jump from sector which is a constitutional-choice level decision to predicting outcome which is an operational-choice level decision. The findings of Research Question 2A indicate that neither sector nor governance structure explain much of the variation in QEP, which is a collective-choice level measure. While sector and governance structure have some relationship to adoption of quality enhancing policies, there are other variables determining their ultimate adoption. These variables are the subject of Research Question 4 to be explored below.

H2B: Use of Voice in Nonprofit and For-profit Centers

My hypothesis, that parental use of voice in policy decisions occurs in both the nonprofit and for-profit sectors, challenges Krashinsky's (1986) theory of consumer demand for nonprofit production. He theorized that nonprofits are more trustworthy due to the combination of the nondistribution constraint and allowing consumers a voice in decision making. At first glance Table 5-8 and Table 5-9 confirms Krashinky's theory and my hypothesis must be rejected: nonprofits account for all but one of the 32 centers allowing parental voice. However, closer analysis reveals a different story.

Independent and religious nonprofits have the greatest frequency of parental voice in policy decisions. This is in stark contrast to sponsored nonprofits. Only 20 percent of sponsored nonprofits allow parental voice as compared with 82 percent of independent nonprofits and 75 percent of religious nonprofits. This intra-sectoral variation in the nonprofit sector cannot be explained by Krashinsky's theoretical perspective. Consumers obviously demand services from sponsored nonprofits even though they do not allow parental voice in policy decisions. But, the intra-sectoral variation in parental voice makes intuitive sense from an institutional perspective based upon the orientation of the board. The independent nonprofit board is specifically devoted to running the child care center. Therefore, boards are more likely to be involved with the operations of the center. It also makes intuitive sense that sponsored nonprofits would have less incidence of parental voice. Sponsored nonprofits are governed by boards that oversee the entire organization. Oversight of the child care center is only one type of service delivered by the parent organization of the sponsored nonprofit. Therefore, the board is more likely to be focused on long range issues rather than operational issues of the child care center. Parental participation on the boards of a religious-sponsored nonprofit is less intuitive since the board governs the church as well as the child care center. However, as discussed in the section on entrepreneurial motivation, church nonprofits tend to serve upper income populations. Upper income clientele have the greatest access to child care alternatives. Therefore, religious-based centers seeking to retain upper income clientele may be more concerned with consumer/purchaser concerns. Having parental representation on the board may facilitate purchaser satisfaction levels. Thus, the religious-sponsored nonprofits and the independent nonprofits support Krashinsky's theory, the sponsored nonprofits do not.

There are two aspects important to consider before completely rejecting this hypothesis. First, the measurement of voice reflects formal procedures. Since all nonprofits are required by law to have governing boards there is a formal mechanism in place if the center chooses to include parents on the board. Even though for-profit public corporations also have boards, I did not expect to see parental involvement in policy decisions. This is because the boards of public corporations govern multiple child care centers and are more focused on long range issues than operational issues. Where I did expect to see greater frequency of parental voice in policy decisions is in the proprietary and private corporation child care centers. But, it became evident during data collection that formal mechanisms are rarely in place for parents to contribute to policy decisions. The one proprietary center with a formal mechanism is owned by a retired private-sector manager who is a strong proponent of Total Quality Management. He is applying this management philosophy by having regular "quality circles" with parents. These quality circles allow him to stay in touch with the positive and negative reactions of parents to the services their children are receiving. For the other proprietary centers the mechanisms for parents to voice concerns to owners are mostly informal. For-profit centers might have a suggestion box or the owner may make a point of engaging parents at pick-up and drop-off times. Since data were not systematically collected on informal mechanisms for expression of parental voice, the data may not fully reflect sectoral differences.

Second, a broader measure of parental involvement indicates low involvement rates across all centers (see Table 5-9). This measure captures parental involvement in fund raising, special events, volunteering, clean-up days, conferences, etc., as well as parental voice in policy decisions. Centers were ranked as having none, low, medium, or high parental involvement. High parental involvement indicates parents are fully integrated into the center. Only eight centers of 105 ranked high and these were all nonprofit centers. Medium parental involvement translates into partial integration. Parents are active in fund raising and/or special events but are more peripheral than centers with high parental involvement. Of the 36 centers in this category, 58 percent are nonprofit and 36 percent are for-profit. Low parental involvement indicates parents may attend occasional events but for the most part parents and center staff do not interact other than at drop off and pick up times. In this category, the nonprofit and for-profit sectors had approximately equal numbers of centers. Nonprofit centers account for 45 percent of low centers and for-profit centers account for 47 percent. Centers in the none category do not attempt to interact with parents. Or, in one case, transportation is provided for all children and the center director and teachers do not have an opportunity to interact with parents even at pick-up and drop-off times. The eight centers in this category are all for-profit. Thus, while 72 percent of for-profit centers fall into the low or none categories, 45 percent of nonprofit centers also fall into these categories.

A cross tabulation of parental involvement and parental voice indicates that not all centers with parental voice have higher levels of parent involvement (see Table 5-10). Eleven of the centers with parental voice have low parental involvement. Of the 32 centers with parental voice in policy decisions only eight centers have high and 13 have medium parental involvement. These data indicate that while one or two parents may participate on the board, the rest of the parents are not integrated into the center.

Therefore, even in centers where there is a formal mechanism for voice, it may only represent the voice of one or two parents.

A common refrain in director/owner interviews was frustration at the low levels the parental involvement. Time is a valuable commodity for working parents with small children. Directors find that parents prefer to drop children at the center, pick them up, and then move on to the other activities in their lives. Directors report that with few exceptions, parents are not interested in being involved with a center other than to attend special events and, reluctantly, to fund raise for the center. Directors and owners attribute the lack of parental involvement to time deficits. With the exception of the Berkeley/Oakland case in which there was a greater prevalence of parents working part-time, parents purchasing child care from child care centers are working full-time and have little leisure time that they are willing to donate to the center. Particularly for single parents, time is a valuable resource and not one that a parent chooses to invest by getting involved in his/her child's center. It is not surprising that of the 32 centers with parental voice, 18 of the centers serve upper income (see Table 5-11). The families choosing these child care centers are more likely to be affluent two-parent families with one parent having a flexible work schedule.

Thus, while it is the case that formal mechanisms for parental voice in child care center policy decisions are almost exclusively used by nonprofits, there are mitigating circumstances needing to be considered before concluding that voice is solely within the domain of nonprofits. If parents are too busy to be involved with the center or to take the time to use voice, then it is doubtful parents are using voice as a criterion for determining if a child care center is trustworthy.

H3: Governance Structure, Agency Costs, and Transaction Costs

This hypothesis is divided into two parts. The first part examines the relationship between agency costs, transaction costs, and governance structure. The second part tests the hypothesis that there is a relationship between the results of the first part and adoption of quality enhancing policies.

H3A : Agency Costs and Transaction Costs

Agency costs measure the potential for agency problems to develop between the board or owner (principal) and the director (agent). In this research question, the operationalization of agency costs are related only to the adoption of quality enhancing policies. As discussed in Chapter Three, centers were divided into low, medium, and high potential for agency costs based on the relationship between the board/owner (principal) and the director (agent). Low agency cost centers include proprietary centers where the owner is also the director, private corporations in which a board member is on-site, and nonprofit centers where the board is involved in center policy decisions. Medium agency cost centers include nonprofit centers with non-policy boards, private corporations without a board member frequently on-site, and proprietary centers with owners frequently off-site. High agency cost centers include proprietary centers with absentee owners, private corporations with off-site board members, public corporation centers, and nonprofits centers with non-functional (i.e. paper) boards.

Transaction costs measure the degree to which the principals monitor the agents. Center directors were asked what types of decisions they can make independently and what types require owner/board approval. Owners and the director were asked how frequently they interact to discuss policy issues. Based upon their responses, centers were categorized as having low, medium, or high transaction costs. Whether transaction costs are greater than or less than the agency costs, minimizes or exacerbates the potential for agency problems, respectively. Table 5-12 summarizes the transaction and agency costs for the child care centers participating in the study. Centers on the diagonal have transaction costs equal to agency costs (n=50). Centers above that diagonal incur greater transaction costs than would be expected given the potential for agency costs. Twenty-six percent of centers (n=27) are least likely to incur agency problems in the adoption of quality enhancing policies. The centers below the diagonal incur a lower level of transaction costs than would be expected given the potential for agency costs. Accounting for 27 percent of the centers (n=28), this group is the most likely to incur agency problems.

Examining the centers below the diagonal by institutional form in Table 5-13 indicates that 35 percent of for-profit centers appear in this group (n=16) and 21 percent of nonprofit centers appear in this group (n=11). One public sector center falls in this group but since the sample only includes six centers it accounts for 17 percent of public centers. An examination by governance structure indicates that 75 percent of the public corporations sampled (n=8) fall below the diagonal. The public corporations included in the study tend to have a district manager who is responsible for monitoring the centers in her/his territory. The territories may include as few as 12 centers or it may include centers in multiple states. Thus, the degree of transaction costs can vary even though the potential agency costs are high for all public corporations. The private corporations (n=4) each had a board member on-site. Therefore, the principal is able to closely monitor agents. Of the proprietary centers, 29 percent (n=10) have transaction costs less than agency costs (i.e.,fall below the diagonal). Closer examination of proprietary centers reveals three having mitigating factors decreasing the potential for agency problems (see Table 5-19). In these three centers the owner is frequently off-site; however, the owner has a strong relationship with the director. The trust relationship between the owner and director may have the potential to effectively mitigate agency problems. In the other seven centers, the owner is off-site or frequently off-site and there is low oversight of the director. These centers are most susceptible to having severe agency problems.

In the nonprofit sector, 21 percent of the centers fall below the diagonal (n=11) (see Table 5-13). Independent nonprofits account for six of the centers below the diagonal and represent 35 percent of the total number of independent nonprofits interviewed. Three of the centers have mitigating factors which may effectively decrease potential agency problems. In two of the centers there is a strong trust relationship between the board and the director. In the third center, the director has a high level of autonomy; however, the State Department of Education monitors the center because it receives public funds. The State's monitoring system is quite extensive and is likely an effective factor in mitigating agency problems. The three remaining centers have serious potentials for agency problems. In two of the centers there is a “paper board” meaning that there is virtually no oversight of the director. The boards do not meet regularly and the directors have complete discretion in making policy decisions. The remaining center is one of the two for-profits in disguise as a nonprofit discussed in the entrepreneurial motivation section above. In this center, the for-profit management company reports to a policy board. However, the center director (owner of the management company) is only infrequently on-site. The assistant director is on-site full-time but is a bookkeeper and does not monitor the center’s non-financial operations. In this center, even though it is governed by a policy board, because of the nearly absent role of the management company, there is a high potential for agency problems.

Of the sponsored nonprofits, only one falls below the diagonal. In this center, the sponsor has a paper board. The parent nonprofit runs four child care centers and there is one director overseeing the geographically disperse centers. Of the four religious-sponsored nonprofits falling below the diagonal, one has a paper board, and the other three have non-policy boards. In each of these centers the church allows the director discretion in policy decisions, provided the center is financially independent and the church receives its share of revenues. In one of these centers there are factors mitigating potential agency problems. The director, along with her direct supervisor, are given discretion on policy decisions; but, the supervisor reports decisions to the board.

The one public sector falling below the diagonal is the result of an overextended school administrator. However, this center is monitored by the State Department of Education similarly to the independent nonprofit discussed above that receives public funds. The monitoring system is quite extensive and is likely an effective factor in mitigating agency problems.

Table 5-14 divides the centers with transaction costs less than potential agency costs (i.e., falling below the diagonal in Table 5-12) by governance structure. The 13 for-profit and six nonprofit centers without mitigating factors are most likely to have principal agent problems.

The extent to which agency problems arise depends upon the rules-in-use at the collective-choice level. As discussed above, the potential for agency problems are greatest when transaction costs incurred to monitor the agent are less than the agency costs associated with governance structure. However, the rules-in-use may prevent those agency problems from materializing. The mitigating factors discussed above are examples where the relationship between principal and agent has developed into what Williamson refers to as “relational contracting” (1985). These relationships involve familiarities leading to economies of scale in communication which may preclude frequent interaction. In other words, the principal and agent know each other very well and do not have to interact frequently to monitor the contract.

In Hypothesis 4D below, the knowledge level of the director is found to be highly significant predictor of the adoption of quality enhancing policies. Unfortunately, the numbers are too small to test whether those centers below the diagonal with mitigating factors have significantly higher QEP scores than the rest of the centers below the diagonal.

H3B : Agency Problems and the Adoption of Quality Enhancing Policies

The second part of Hypothesis 3 tests the effect of potential agency problems on the adoption of quality enhancing policies. This represents the transition from constitutional to collective choice rule levels. It is the implementation of the governance structure and its effect on adoption of quality enhancing policies. In terms of the research design, it connects with Research Question 4 exploring the variables affecting the adoption of quality enhancing policies. Before exploring the relationship between agency problems and policy adoption it is first necessary to discuss the full regression model utilized to test Research Question 4 (hypotheses three through ten). Each of the variables is discussed as it relates to the hypotheses discussed below. Table 5-15 presents the correlation coefficients for the independent variables. Table 5-16 presents the regression results for the effects of agency problems, regulatory environment, funding environment, geographic location, clientele, and director integration in the professional community on the QEP index (see section H2A for discussion of creation of the QEP index).

To test the effect of agency problems on the adoption of quality enhancing policies, centers above the diagonal were tested against centers on or below the diagonal. Originally, centers were divided into three groups: above the diagonal, on the diagonal, below the diagonal. Examination of mean scores between the three groups indicated centers below the diagonal and centers on the diagonal did not have statistically significant differences in their mean QEP scores (see Table 5-22). Therefore, these two categories were combined and tested against centers above the diagonal. In the regression, the “above” category was included and the combined below/on diagonal was the omitted category. The results indicate centers with transaction costs greater than potential agency costs (least likely to incur agency problems) have higher mean QEP scores than centers with transaction costs equal to or less than potential agency costs. Table 5-16 presents the regression model indicating the variable is significant at the 5 percent level. These findings support Hypothesis 3: governance structures incurring transaction costs greater than agency costs adopt higher levels of quality enhancing policies.

H4A: Regulatory Environment

The regression results in Table 5-16 indicate H4A is not supported empirically. The overall effect of regulatory environment on adoption of quality enhancing policies is not significant. Recalling from Chapter 4, state regulations tend to focus on health and safety aspects of child care. While this is a critical component of child care services, it does not affect the content of those services. Of the variables included in the QEP index, only teacher/child ratio are included in state regulations. Accreditation, teacher retention policies, and parent involvement are not part of the state regulatory process. Figure 5-1 presents a histogram for teacher/child ratios indicating the distribution is highly skewed towards centers maintaining ratios at the state level. This finding supports earlier research (Morgan, 1985) that regulations set the floor for child care services rather than serving as a benchmark for quality. We can conclude that while regulatory environment affects teacher/child ratios, it does not affect the QEP index. Therefore, Hypothesis 4A must be rejected.

H4B: Funding Environment

In interviews with center directors, questions regarding funding involved asking the tuition rate and whether the center receives direct subsidies and/or vouchers. The direct subsidies received by centers come from both private and public sources. Title XX of the Social Services Block Grant is used in Indiana to directly subsidize centers serving low income children. In most sponsored nonprofits, and a few religious-sponsored nonprofits, the parent nonprofit may subsidize the center by covering overhead costs or contributing directly to the budget. Regression results in Table 5-16 indicate centers receiving direct subsidies increase their QEP scores by 1.14 points (significant at the 5% level).

The voucher variable proved more complicated than originally expected and has been omitted from the model. Each of the four states has a voucher program but the programs are extremely diverse. In North Carolina, centers receiving greater than 50 percent of enrollments through vouchers receive a lower reimbursement rate than centers serving less than 50 percent. Those centers receiving the lower reimbursement rate will have more constrained budgets than centers receiving the higher reimbursement, holding all else equal. Therefore, receipt of vouchers in one center may increase QEP while receipt of vouchers in another may decrease it. In New York, all centers receive the same reimbursement rate which is set by the county and is well below market rates. Centers accepting vouchers forfeit the difference between the voucher reimbursement rate and the private pay rate. Therefore, depending on the proportion of vouchers accepted by the center, budget constraints will vary. In Indiana, reimbursement rates are set by the county and parents enrolling children at centers with tuition higher than the voucher rate must pay the difference. Given this diversity in voucher programs, the effects of vouchers on the degree of budget constraint is highly dependent on the state, and in North Carolina, the clientele of the center.

The budget constraint variable in the model measures the degree of budget constraints due to the size and tuition level of the center. The larger the enrollment of a center, the more likely it can realize economies of scale not possible for smaller centers. However, whether larger enrollment translates into more flexible budgets depends on the funding level. The higher the tuition the greater the revenues for the center. Thus, a large center with high tuition is more likely to have the budget capability to improve QEP adoption. To create the tuition variable, data was collected for the tuition level for a full-time three year old. Centers were sorted by state, to control for differences in child care costs, and then categorized into quartiles. Similarly, the total capacity of centers were divided by quartiles into extra-small (<50), small (51-85), medium (86-120), and large (>120). Table 5-17A summarizes the frequency of centers by size and tuition. The centers are nearly evenly distributed by size and the mode for tuition is between the 26th percentile and the median. Table 5-17B replaces the frequencies with the budget constraint categories: most constrained, less constrained, and least constrained. Extra-small centers, regardless of tuition level, have constrained budgets and were categorized as most constrained. Centers that are small with extra low or low tuition were also categorized as most constrained. And, centers that are medium size but have extra low tuition were categorized as most constrained. The least constrained centers are those that are medium to large in size and charge medium to high tuition. The remainder were categorized as less constrained.

In the regression model (Table 5-16) budget constraint was treated as a continuous variable rather than as a series of dummy variables. Because it is ordinal (i.e., least constrained is better than less constrained and less constrained is better than most constrained) it can be treated as continuous as long as equal intervals are assumed. The regression results indicate budget constraint is significant at the 1 percent level and it has the expected sign. The standard interpretation is that for every one unit increase (i.e., improvement) in budget constraint there is a 1.05 unit increase in QEP score. However, for this hypothesis, the important finding is that as centers gain budget flexibility, adoption of quality enhancing policies increases. Thus, we can affirm Hypothesis 4B: Centers with most constrained budgets perform less well than centers with less or least constrained budgets.

Competition

The effects of competition on QEP were exploratory. The data collected represents the director or owner's perception of competition. To gauge dimensions of competition, center directors and owners were asked what type of competition they experienced. Based on their response and additional information gathered during the interviews, centers were categorized into price, quality, and/or academic competition. Those centers competing for price are geographically close to other centers and have concerns about raising tuition and losing parents to their competitors. One center owner lamented that if she raised tuition by $1 parents would move their child to the center down the street. I expect price competition to negatively impact QEP scores. Price was included in the full model as a dummy variable and was found to be statistically significant at the 5 percent level. A center competing based on price decreases QEP score by .99 points (see Table 5-16). Centers competing for price had mean QEP scores of 7.5 compared to 9.8 for those not competing for price.

Those centers competing for quality are the most prestigious centers. In any community there are a group of centers who cater to parents wanting the most enriching early childhood experience for their children. Regardless of the price or location, discriminating parents seek out this group of centers. Thus, I expect quality competition to positively affect QEP scores. In the full model the quality dummy variable had the expect sign and was found to be statistically significant at the 5 percent level. A center competing based on quality increases QEP score by 1.05 points (see Table 5-20). Centers competing for quality (mean=10.8) had significantly different mean QEP scores than those not competing for quality (mean=8).

There were eight centers with both price and quality competition. The mean QEP score for these centers is 10.4 which is near the mean QEP score of 10.8 for centers competing for quality. These price/quality centers may reap the gains of efficiency based on price competition and the gains to quality based on quality competition.

Centers competing for academics promise parents educational results. However, the methods for attaining results may not be developmentally appropriate. Only four centers competed based on academics which makes the sample too small for meaningful analysis. Because the number of centers competing academically and the number of centers competing for both price and quality were small they were omitted from the full regression model.

H4C: Clientele

To test the hypothesis that those centers serving a clientele less constrained by time and/or money will adopt greater quality enhancing policies, data was collected on the primary income group served by the center (low, middle, upper, and mix) and the family characteristics (single parent, dual career family, single career family, mix).[16] Family characteristics measures the relative time constraint. A single parent is assumed to have the most time constrained life. A dual parent family with both parents working full time is assumed to be less time constrained than a single parent. And, a single career, two parent family (i.e., stay at home parent or parent working part-time) is assumed to be the least time constrained. Table 5-18 summarizes clientele information for the participating centers. Single parents are almost exclusively low income. Dual career parents are mostly upper income. The few single career parents (with a stay at home parent) are nearly all upper income. The 10 mixed income centers primarily serve families with middle income to upper income. Only in one center out of 105 was there a mix of income from low to upper.

To analyze the effect of clientele on adoption of quality enhancing policies, the two variables were combined into an index. The Cronbach alpha statistic indicated the two combined variables have a 78 percent scale reliability coefficient. In order to

[16]As reported by the director or owner.

combine the variables, mixed categories were replaced with their means (1.75 for family; 2 for income). Family characteristics and income level (each with three categories)were then summed to create an index with a minimum score of two and a maximum score of six. Table 5-16 indicates the clientele index to be positively related with QEP scores at the 10 percent significance level. A one unit increase in the clientele index (i.e., a one unit improvement in time and/or money constraints) translates to a .36 unit increase in QEP score. The magnitude of the relation is not high but this data does indicate that the attributes of the clientele have a direct relationship to the center's adoption of quality enhancing policies.[17]

H4D: Director Integration

Directors were asked several questions to gauge their knowledge level of early childhood education and to assess their integration into the early childhood professional community. Based on their responses, centers were placed into three categories: minimal, some, good. Table 5-16 indicates a strong direct relationship between director knowledge and center QEP score: Increasing director knowledge from one category to the next increases QEP score by 1.1 points.

Returning to the discussion on mitigating factors for agency problems, this data supports a strong role for directors in determining adoption of quality enhancing policies. For those centers below the diagonal in Table 5-12 (transaction costs less than agency costs), if a board or owner hired a director knowledgeable of early childhood education

[17]I expected correlation between the budget constraint variable and clientele but the correlation coefficient is .2843 which is not large enough to warrant serious multicollinearity concerns (see Table 5-15).

and the professional community, the center will be more likely to adopt greater quality enhancing policies. Given the relational contracting between the principal/agent relationship for many of those with mitigating factors, the education and experience of the agent may allow the principal to decrease monitoring without incurring an increase in agency problems. This finding points toward the need for greater research into the role of the director in governing child care centers.

Summary H3 - H10

The full model presented in Table 5-16 indicates each of the three arenas affects a center's adoption of quality enhancing policies. The rules-in-use variables (agency problems and funding environment), the physical world variables (quality and price competition), and the attributes of the community variables (clientele and director knowledge) all affect a center's policy decisions regarding teacher retention, teacher/child ratios, parental involvement, and accreditation. From this analysis, we can conclude that centers with better principal-agent monitoring systems, more flexible budgets, and direct subsidies, competition on the basis of quality, clienteles less constrained by money and time, and knowledgeable directors are more likely to have greater adoption of quality enhancing policies.

Table 5-1

Public Corporations	
Mean	160
Standard Error	14
Median	162
Standard Deviation	39
Sample Variance	1492
Range	128
Minimum	96
Maximum	224
Count	8

Private Corporations	
Mean	171
Standard Error	53
Median	155
Standard Deviation	106
Sample Variance	11155
Range	227
Minimum	74
Maximum	301
Count	4

Proprietary	
Mean	82
Standard Error	11
Median	68
Standard Deviation	62
Sample Variance	3852
Range	281
Minimum	16
Maximum	297
Count	34

Independent Nonprofit	
Mean	79
Standard Error	13
Median	75
Standard Deviation	52
Sample Variance	2711
Range	178
Minimum	22
Maximum	200
Count	17

Sponsored Nonprofit	
Mean	98
Standard Error	7
Median	94
Standard Deviation	33
Sample Variance	1114
Range	111
Minimum	49
Maximum	160
Count	20

Religious-Sponsored Nonprofit	
Mean	87
Standard Error	16
Median	67
Standard Deviation	65
Sample Variance	4224
Range	234
Minimum	24
Maximum	258
Count	16

Table 5-2

Entrepreneurial Motivation	Low Income	Middle Income	Upper Income	Mixed Incomes	Total	Percent
Business Person	2	2	2	0	6	18%
Early Childhood Professional	1	1	4	1	7	21%
Mom	2	0	2	1	5	15%
On-site Owner	9	1	4	0	14	41%
Public-Private Venture	0	0	1	0	1	3%
Special	0	1	0	0	1	3%
Total	14	5	13	2	34	100%

Table 5-3

Business Person	
Mean	146
Standard Error	37
Median	106
Standard Deviation	91
Sample Variance	8201
Range	234
Minimum	63
Maximum	297
Count	6

Early Childhood Professional	
Mean	41
Standard Error	8
Median	44
Standard Deviation	20
Sample Variance	394
Range	52
Minimum	18
Maximum	70
Count	7

Mom	
Mean	76
Standard Error	30
Median	55
Standard Deviation	68
Sample Variance	4618
Range	160
Minimum	16
Maximum	176
Count	5

All On-Site Owner	
Mean	72
Standard Error	10
Median	68
Standard Deviation	38
Sample Variance	1433
Range	115
Minimum	20
Maximum	135
Count	14

Low Income/On-Site Owner	
Mean	55
Standard Error	10
Median	48
Standard Deviation	31
Sample Variance	959
Range	97
Minimum	20
Maximum	117
Count	9

Upper Income/On-Site Owner	
Mean	110
Standard Error	15
Median	119
Standard Deviation	30
Sample Variance	879
Range	68
Minimum	67
Maximum	135
Count	4

Table 5-4

Nonprofit Centers by Entrepreneurial Motivations and Clientele

Independent Nonprofit

Entrepreneurial Motivation	Low Income	Middle Income	Upper Income	Mixed Income	Total	Percent
Church	2	0	1	1	4	24%
Early Childhood Professional	1	2	2	0	5	29%
Parents	0	0	2	0	2	12%
Public Funds	2	0	0	1	3	18%
For-profit in disguise	0	1	1	0	2	12%
Unclear	1	0	0	0	1	6%
Total	6	3	6	2	17	100%

Sponsored Nonprofit

Entrepreneurial Motivation	Low Income	Middle Income	Upper Income	Mixed Income	Total	Percent
Outreach/Charity	8	0	2	4	14	70%
On-Site Child Care	0	0	2	1	3	15%
Public Funds	2	1	0	0	3	15%
Total	2	1	2	1	6	30%

Religious-Sponsored Nonprofit

Entrepreneurial Motivation	Low Income	Middle Income	Upper Income	Mixed Income	Total	Percent
Center Subsidizes Church	0	2	8	1	11	69%
Church Subsidizes Center	0	0	2	0	2	13%
n/a	1	0	2	0	3	19%
Total	1	2	12	1	16	100%

Table 5-5
Regression Results
Quality Enhancing Policy Adoption = f(Sector)

Regression Statistics	
Multiple R	0.42
R Square	0.18
Adjusted R Square	0.16
Standard Error	2.55
Observations	105

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	2	145.91	72.957	11.21	3.97358E-05
Residual	102	663.83	6.51		
Total	104	809.75			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept (public)	9.33	1.04	8.96	0.00	7.27	11.40
for-profit	-1.65	1.11	-1.49	0.14	-3.84	0.55
nonprofit	0.78	1.10	0.71	0.48	-1.40	2.96

Table 5-6
Regression Results
QEP = f(Governance Structure)

Regression Statistics	
Multiple R	0.50
R Square	0.25
Adjusted R Square	0.20
Standard Error	2.50
Observations	105

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	6	199.39	33.23	5.34	8.42575E-05
Residual	98	610.35	6.23		
Total	104	809.75			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept (public)	9.33	1.02	9.16	0.00	7.31	11.36
Proprietary	-2.04	1.11	-1.85	0.07	-4.23	0.15
Private Corporation	-0.08	1.61	-0.05	0.96	-3.28	3.11
Public Corporation	-0.77	1.35	-0.57	0.57	-3.45	1.90
Independent Nonprofit	-0.07	1.19	-0.06	0.95	-2.42	2.28
Sponsored Nonprofit	0.62	1.16	0.53	0.60	-1.69	2.92
Religious-Sponsored Nonprofit	1.89	1.19	1.58	0.12	-0.49	4.26

Table 5-7
Difference in Mean Tests for Quality Enhancing Policies Index Scores:
Proprietary to Nonprofit Governance Structures

	Proprietary	*Independent Nonprofit*
Mean	7.29	9.26
Known Variance	5.55	8.57
Observations	34	17
Hypothesized Mean Difference	0.00	
z	-2.41	
P(Z<=z) two-tail	0.02	
z Critical two-tail	1.96	

	Proprietary	*Sponsored Nonprofit*
Mean	7.29	9.95
Known Variance	5.55	3.50
Observations	34	20
Hypothesized Mean Difference	0.00	
z	-4.57	
P(Z<=z) two-tail	0.00	
z Critical two-tail	1.96	

	Proprietary	*Religious-Sponsored Nonprofit*
Mean	7.29	11.22
Known Variance	5.55	9.80
Observations	34	16
Hypothesized Mean Difference	0.00	
z	-4.46	
P(Z<=z) two-tail	0.00	
z Critical two-tail	1.96	

Table 5-8
Parental Voice by Governance Structure and Sector

Voice in Policy	For-Profit			Total For-profit
	Proprietary	Private Corp	Public Corp	
Yes	1 (3%)	0 (0%)	0 (0%)	1 (2%)
No	33 (97%)	4 (100%)	8 (100%)	45 (98%)
Total	34 (100%)	4 (100%)	8 (100%)	46 (100%)

Voice in Policy	Nonprofit			Total Nonprofit
	Independent	Sponsored	Religious	
Yes	14 (82%)	4 (20%)	12 (75%)	30 (57%)
No	3 (18%)	16 (80%)	4 (25%)	23 (43%)
Total	17 (100%)	20 (100%)	16 (100%)	53 (100%)

Voice in Policy	Public	Total Public
Yes	1 (17%)	1 (17%)
No	5 (83%)	5 (83%)
Total		6 (100%)

Voice in Policy	Grand Total
Yes	32 (30%)
No	73 (70%)
Total	105 (100%)

Table 5-9
Parental Involvement
by Sector

Sector	None	% None	Low	% Low	Medium	% Medium	High
For-Profit	8	100%	25	47%	13	36%	0
Nonprofit	0	0%	24	45%	21	58%	8
Public	0	0%	4	8%	2	6%	0
Total	8	100%	53	100%	36	100%	8

Table 5-9
Parental Involvement
by Sector

% High	Total
0%	46
100%	53
0%	6
100%	105

Table 5-10

Parental Voice in Policy Decisions	Parental Involvement				Total
	None	Low	Medium	High	
Yes	0	11	13	8	32
No	8	42	23	0	73
Total	8	53	36	8	105

Table 5-11

Parental Voice in Policy Decisions	Primary Income Group of Clientele Served				Total
	Low Income	**Middle Income**	**Upper Income**	**Mixed Income**	
Yes	6	3	18	5	32
No	32	10	24	7	73
Total	38	13	42	12	105

Table 5-13

Governance Structure	**Monitoring**			**Total**
	T>A	T=A	T<A	
Proprietary	3 (11%)	21(42%)	10 (36%)	34(32%)
Private Corporation	1(4%)	3(6%)	0 (0%)	4 (4%)
Public Corporation	1(4%)	1 (2%)	6 (21%)	8 (8%)
Total For-Profit	5 (19%)	25 (50%)	16 (57%)	46 (44%)
Independent	7 (26%)	4 (8%)	6 (21%)	17 (16%)
Sponsored	4 (15%)	15 (30%)	1 (4%)	20 (19%)
Religious-Sponsored	11 (41%)	1(2%)	4 (14%)	16 (15%)
Total Nonprofit	22 (81%)	20 (40%)	11 (39%)	53 (50%)
Public School	0 (0%)	5 (10%)	1(4%)	6 (6%)
Total	27 (100%)	50 (100%)	28 (100%)	105 (100%)

T= transaction costs A=agency costs

Table 5-14

Governance Structure	**Mitigating Factors**		**Total**
	Yes	No	
Proprietary	3	7	10
Private Corporation	0	0	0
Public Corporation	0	6	6
Total For-Profit	3	13	16
Independent	3	3	6
Sponsored	1	0	1
Religious-Sponsored	1	3	4
Total Nonprofit	5	6	11
Public School	1	0	1
Total	9	19	28

Table 5-15

	Above	Environment	Budget Constraint	Direct Subsidy	Price Competition	Quality Competition	Clientele	Director Knowledge
Above	1.00							
Environment	-0.16	1.00						
Budget Constraint	-0.06	0.29	1.00					
Direct Subsidy	-0.03	-0.12	-0.03	1.00				
Price Competition	-0.23	0.11	-0.06	-0.32	1.00			
Quality Competition	0.27	0.01	0.36	-0.06	-0.13	1.00		
Clientele	0.22	-0.19	0.28	-0.36	-0.14	0.37	1.00	
Director Knowledge	0.21	-0.22	0.16	0.28	-0.39	0.29	0.17	1.00

(obs=92)

Table 5-16

Source	SS	df	MS
Model	458	8	57
Residual	281	83	3
Total	740	91	8

Number of observations	92
F(8,83)	16.87
Prob > F	0
R-squared	0.62
Adj R-squared	0.58
Root MSE	1.84

QEP	Coefficient	Std Error	t	P>|t|	[95% Conf. Interval]	
Above	0.94	0.47	1.98	0.05	0.00	1.88
Environment	0.18	0.45	0.40	0.69	-0.07	1.06
Budget Constraint	1.04	0.28	3.76	0.00	0.49	1.60
Direct Subsidy	1.13	0.49	2.33	0.02	0.16	2.11
Price Competition	-0.99	0.47	-2.09	0.04	-1.92	-0.05
Quality Competition	1.04	0.48	2.17	0.03	0.09	2.00
Clientele	0.36	0.20	1.82	0.07	-0.03	0.76
Director Knowledge	1.07	0.28	3.76	0.00	0.50	1.63
Constant	2.42	1.12	2.16	0.03	0.19	4.66

Dependent Variable
Quality Enhancing Policies Index (continuous, range 4-16)

Rules-in-Use Variables
Above (1=yes, 0= below or on the diagonal)
Environment (1=low, 2=high)
Budget Constraint (continuous, range 1-3)
Direct Subsidy (1=yes, 0=no)

Physcial World Variables
Price Competition (1=yes, 0=no)
Quality Competition (1=yes, 0=no)

Attributes of the Community Variables
Clientele (continuous, range 2-6)
Director Knowledge (continuous, range 1-3)

Table 5-17A
Size and Tuition Levels for Child Care Centers

Size	Tuition Xlow	Low	Medium	High	**Total**
Xsmall	5	16	4	2	27
Small	8	14	2	2	26
Medium	5	11	7	4	27
Large	6	4	6	9	25
Total	24	45	19	17	105

Table 5-17B
Budget Constraints by Size and Tuition Levels
for Child Care Centers

Size	Tuition Xlow	Low	Medium	High
Xsmall (<50)	most	most	most	most
Small (51-85)	most	most	less	less
Medium (86-120)	most	less	least	least
Large (>120)	less	less	least	least

Table 5-18
Primary Income Level by Family Characteristics

Income	Family Characteristics				Total
	Single Parent	Dual Career	Single Career	Mix*	
Low	21	3	0	11	35
Middle	2	6	0	4	12
Upper	1	32	5	5	43
Mix	0	1	1	10	12
Total	24	42	6	30	102

* Mix refers to centers in which there is a range of incomes and/or career patterns

Chapter 6
Conclusions and Directions for Future Research

Introduction

The research in this dissertation leads to some interesting theoretical directions and policy implications. The chapter begins with a summary of the theoretical and empirical findings. Based upon these findings a discussion of the policy implications of this research follows. The chapter concludes with plans for future research.

Summary of Theoretical and Empirical Findings

In the critique of nonprofit theories in Chapter Two, I concluded that once child care is correctly classified as a toll good it is not surprising to find mixed economies producing this service. Because of the exclusion mechanism for child care, producers are able to collect fees and, at least for centers, the legal constraints on capacity limit congestion problems. Both Market/Government Failure Theory (Weisbrod, 1977, 1988) and Contract Failure Theory (Hansmann, 1980, 1986) do not include toll goods in their theories of mixed economies which is a main reason why mixed economies have continued to perplex nonprofit theorists.

The second critique in Chapter Two focused on the post-experience information asymmetry of child care. Because some quality aspects of a child's experience in child care are not known until significant time passage, if at all, the issue of trust between parent and caregiver is paramount. Contract Failure Theory predicts consumers will demand nonprofit production for goods characterized by information asymmetry. This theory links trustworthiness to nonprofit production based upon the nondistribution constraint. According to Contract Failure Theory, we would expect nonprofit child care centers to adopt greater quality enhancing policies than for-profit child care centers because nonprofits are reinvesting all surplus back into service delivery. The logical conclusion based upon Contract Failure Theory is that only nonprofits would undertake such costly measures such as teacher retention through higher wages and benefits, accreditation, and improving teacher-child ratios. Further, this theory requires consumers to be cognizant of this difference and use it as a basis for demanding services from nonprofit enterprises. Yet, Chapter Five reveals high quality enhancing policies (QEP) index scores in both sectors. The data do not support the link between the nonprofit sector and greater trustworthiness as measured by QEP scores. Rather, the data indicate that it is not possible to causally link sector directly to the decision making which affects quality of service delivery.

Krashinsky (1986) added purchaser voice to the nondistribution constraint to assure consumer faith in nonprofit trustworthiness. The assumption is that because nonprofit enterprises allow consumers, in this case purchasers of child care, direct input into the running of the enterprise, they will trust nonprofits to produce goods with information asymmetry. These data find support for a greater presence of purchaser voice in nonprofit centers as compared with for-profit centers, which initially appears to support Krashinsky's theory. But there are two issues to be considered before concluding Krashinsky's theory is fully supported. First, of the 53 nonprofits included in the study, 23 do not allow voice. This intra-sectoral variation cannot be explained by Krashinsky's theory of consumer demand. We would expect all nonprofits to allow voice in order to reassure consumers that they are trustworthy.

The variation can be explained by changing theoretical lenses to an institutionalist perspective. Within the nonprofit sector, there are three main governance structures for child care centers: independent, sponsored, and religious-sponsored. Religious and independent nonprofits have boards more closely focused on the center's operations whereas for sponsored nonprofits, the child care center is only one of many services delivered. The board for this type of nonprofit is concerned with broader issues than the child care center. Once nonprofit centers are divided into their governance structures the pattern of voice becomes clear: those nonprofits with boards focusing on the operations of the child care center are more likely to have parental representation than boards with broader missions. Examining the data, independent and religious-sponsored centers comprise 26 of the 30 centers with voice. Thus, the varying governance structures for nonprofits (i.e., their constitutional-choice rule environments) determine whether parents are granted board representation.

A second finding which adds richness to the examination of parental relations to child care centers reveals low level of parental involvement in both sectors for activities such as special events, fund raising, clean-up days, etc. Directors and owners of nonprofit and for-profit centers alike find it difficult to integrate parents into the center because parents are unwilling to allocate precious leisure time to center activities. Parental involvement, which is a broader measure of parent integration than parental voice, tells us that families with small children, especially single parent families, have significant time constraints and are not able or not willing to be involved with the center. It is also important to note that parental voice in policy decisions does not translate into high parental involvement in the center. Only eight of the 32 centers with voice also have high parental involvement. In the other 24 centers with voice, only the one or two parents on the board are integrated into the center. Given these low levels of involvement and limited number of parents exercising voice, it is unlikely that parents use voice in nonprofit decision making as a signal for trustworthiness. Clearly, the nondistribution constraint combined with purchaser voice is not a major factor in parental child care decisions. In light of these two arguments, it is not possible to accept the theory that voice combined with the nondistribution constraint assures consumers of the trustworthiness of nonprofit enterprises.

The data analysis in the dissertation reveals very different roles for the for-profit and nonprofit sectors than those predicted by existing theory. Market/Government Failure Theory (Weisbrod, 1977, 1988)explains mixed economies by segmenting the market into sectors. Since this theory focuses only on collective goods (ignoring the exclusion attribute), the assumption is that the for-profit sector will under-produce collective goods because for-profit entrepreneurs will not be able to exclude nonpaying users from enjoying the good. The public sector will respond to the market failure and produce the goods at the level determined by the political process. To the extent the public sector under produces the good (i.e., government failure) the nonprofit sector will emerge to produce services for those with unmet demand. The data analysis reveals several interesting findings contrary to theory. As Market/Government Failure Theory predicts, the public sector provides (and in two of the cases produces) child care services for low income families. However, because of the exclusion mechanism, for-profit entrepreneurs not only are prevalent in the child care they dominate the market (refer to Figure 1-1). Beyond the dominance of the for-profit sector in the mixed economy for child care, the most interesting challenge to existing theory is the findings related to entrepreneurial motivations.

The behavior of entrepreneurs in the for-profit sector do not mirror nonprofit theory or standard economic theory. If for-profit entrepreneurs are profit maximizers we would expect them to only produce services for the segment of the market for which it can generate the highest net revenues. For child care, this entails selling services to upper income clientele and/or have centers with large capacities to realize economies of scale. Public corporations and private corporations adhere to their theoretical role. However, the data indicate proprietary firms serve a diverse clientele and have capacities ranging from 16 to 297. For those centers with small capacities and serving low income, there is very little potential for profit. Theoretically, these for-profits should not have emerged since the motivations of these entrepreneurs do not match the model of a profit maximer. These business owners are motivated by diverse reasons including the desire to stay with one's children, the practice of a particular early childhood education philosophy, or, it may just have been a poor business decision. A major finding of this dissertation is the diversity in entrepreneurs starting for-profit businesses.

Market/Government Failure Theory predicts nonprofit enterprises will emerge to meet unsatisfied demand for collective goods. These data reveal only sponsored nonprofit centers clearly meet this prediction. All the sponsored nonprofit centers surveyed target an under served population such as low income or special needs children. But independent and religious-sponsored nonprofits do not emerge as this theory predicts. Independent nonprofits are extremely diverse. Some are nonprofits in disguise as for-profits and others target under served clienteles. This governance structure is so diverse it defies generalizations of entrepreneurial motivations. The most surprising results are found in the religious-sponsored nonprofit centers. For this governance structure, the data reveals religious-sponsored nonprofits to serve nearly exclusively upper income clientele.[1] Since this segment of the population has the greatest child care options these nonprofits are not emerging to meet unmet demand.[2] For-profit centers

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[1]This study selected licensed child care facilities. In Indiana and North Carolina religious-sponsored child care centers can choose to exempt their programs from licensing. There are a few license exempt child care facilities in the sample but not enough to allow a separate analysis. Therefore, this finding is based on the licensed religious-sponsored child care centers.

[2]Since there are parents willing and able to pay for religious-sponsored child care services there is demand. However, the issue is whether or not these centers emerged to meet *unmet* demand. The for-profit centers competing with religious-sponsored centers would argue that the demand could be met in the private sector. In Chapter 5, I argue that religious-sponsored nonprofit centers emerge to serve church purposes rather than a commitment to target services to an under served population. That is not to say religious-sponsored centers do not produce quality services. These centers had the highest QEP scores of all the governance structures. The important point is that

serving the same target population complain that they deliver similar services and yet nonprofits gain the advantage of tax-exempt status which, for-profits charge, allows nonprofits an unfair competitive advantage.

What emerges from this analysis is that the diversity within sectors prevents generalizations of entrepreneurial motivations by sector. Even dividing centers into governance structures does not fully capture this variability. To build a theory of mixed economies better able to capture empirical reality, it is necessary to expand our conception of entrepreneurial motivations.

The data revealed that neither sector nor governance structure explained variation in QEP very well. Thus, even dividing from sectors into governance structures does not allow us to make the jump between constitutional-choice rule environments and policy choices. Much of previous child care research examines only the relationship between the constitutional-choice level decision to incorporate as a nonprofit or start a for-profit and the outcome of child care services delivered. This research finds no basis for making such a connection. What this research does find is strong relationships between collective-choice rules and the adoption of QEP. The institutional environment created by the rules-in-use, physical world, and attributes of the community at the collective-choice level are nested in the constitutional-choice level decision to form a nonprofit or for-profit child care center. Thus, there is a relation, but it is indirect.

After an entrepreneur(s) decides to start a child care center there are a plethora of decisions to be made. What will the wages be? Will the center offer benefits? Should the center become accredited? What are the regulations to be followed? What type of director should be hired and how will s/he be monitored? How to attract parents? What tuition to charge? What

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emergence of religious-sponsored nonprofits is not explained by Market/Government Failure Theory.

centers are competitors? The answers to these questions are policy decisions having an impact on the quality of services delivered. Through identification of the rules-in-use, physical world, and attributes of the community at the collective-choice level, it becomes possible to identify which variables within each of those arenas increase the potential for delivery of quality services.

Based on the regression analysis in Table 5-16 the following variables affect QEP scores:

- Centers with monitoring systems reflecting greater transaction costs than agency costs score higher on the QEP index. Therefore, greater monitoring interaction between principals and agents translates into higher adoption of quality enhancing policies.

- State regulatory environments only affect teacher/child ratios and not the QEP index as a whole.

- As center budgets become less constrained (measured by size and tuition levels), QEP scores increase.

- Centers receiving subsidies from public and/or private sources have higher QEP scores than centers not receiving subsidies.

- Centers competing based on price have lower QEP scores than centers not competing based on price.

- Centers competing based on quality have higher QEP scores than centers not competing based on quality.

- Centers with clienteles who are less constrained by time and money have higher QEP scores.

- Directors who are more knowledgeable about early childhood education and integrated into the professional community are associated with centers having higher QEP scores.

Some of the findings discussed above have implications for public policy while others are better attained through nongovernmental processes. Those appropriate for public policies are explored in the discussion below.

Policy Implications

Preferential Treatment of Nonprofit Enterprises

Nonprofit theory and earlier child care studies provide the basis for preferential treatment of nonprofit child care centers. Because nonprofits are legally prevented from redistributing profits, it is assumed they can be *trusted* more than for-profits to produce quality goods and services in situations of information asymmetry between producer and consumer. Many public policies are based upon this assumption. Until recently, federal and state government contracts for social services, were funneled exclusively to nonprofit organizations. Typically public and private grants are available only to nonprofit organizations. In some public policies there are different eligibility rules for for-profits and nonprofits. For example, the U.S.Department of Agriculture's Child and Adult Food Care Program automatically grants nonprofit centers eligibility regardless of how few children of low income families they serve whereas for-profit centers must serve 25 percent low income to qualify. In Indiana and North Carolina, religious-sponsored nonprofit child care centers are exempt from many licensing requirements. All of these policies are based upon the assumption of nonprofit trustworthiness. This dissertation finds no support for nonprofit preferential policies. Policy emphasis needs to be placed on encouraging centers to produce high quality services to the target population rather than whether the center is organized as a nonprofit or for-profit center.

Child Care Policy for Low Income Families

Under welfare reform, states have moved to voucher systems to provide low income families with child care services. States have embraced vouchers as a decentralized policy tool providing parents with the greatest flexibility in child care choices. In voucher systems, parents choose an arrangement and pay for services with their vouchers. The state reimburses the child care arrangement for the voucher amount. The child care can be purchased from a center, day care home or any informal arrangement the parent chooses. The use of vouchers are unrestricted to provide parents with maximum "choice." While vouchers are an extremely popular policy tool, there are three serious problems with voucher programs that have yet to be addressed. First, parental choice is touted as the solution without any awareness of the post-experience information asymmetry associated with child care services. Even if parents are knowledgeable about quality child care, it is very difficult for parents to judge the on-going quality of services their children receive. Parents choosing child care from licensed child care facilities have some assurance in that the state monitors the arrangement for health and safety. But if they choose from exempt care categories or the informal sector, there is no monitoring mechanism for these arrangements other than parental. Thus, vouchers create a system in which monitoring of the child care arrangements is the responsibility of the parent and yet, because of the nature of the good, parents are in a very poor position to monitor.

Second, the performance of a voucher system depends on the fulfillment of a number of free market assumptions. Vouchers for food (i.e., food stamps) work well in free markets because these are private goods.[3] But what if the good is not private or the market is not free? As previously discussed, child care is a post experience toll good and parents are at an extreme disadvantage in monitoring child care arrangements because of the information asymmetry. But, a second impediment to the free market for child care vouchers is that low income parents have a limited array of producers from which to choose. This is because low income families are more likely to rely on public transportation. While the upscale center in the affluent suburbs may be willing to accept a child care voucher, the limitations of the public transportation system may make that "choice" impractical for a low income parent. Given these impediments to monitoring and the functioning of the market, there are serious deficiencies in relying completely on vouchers to provide child care services for low income families.

Encouraging Centers to Adopt Quality Enhancing Policies

To encourage centers to adopt quality enhancing policies, the policy emphasis needs to shift from sector (a constitutional-choice level rule) to the factors influencing policy adoption (collective-choice level rules). Several of the seven factors affecting center adoption of quality enhancing policies discussed in the previous section are potentially addressed through public policies. The most important is the need to decrease budget constraints for child care centers. For those centers serving low income families

[3]The term "well" is relative. Food stamp black markets exist. But a person purchasing food with a food stamp is able to determine quality of the food and the exchange to purchase the food is uncomplicated.

in smaller centers, it is nearly impossible for these enterprises to provide benefits for employees, pay living wages, or seek accreditation. The difficult, seemingly intractable problem for child care centers is the tension between tuition and wages. Labor is the highest cost input in child care. To raise wages to a livable level in order to decrease turnover requires child care centers to increase revenues. Since there is little potential for direct subsidies, to increase revenues centers must increase tuition. But tuition levels are constrained by the price parents are willing to pay. Therefore, center owners and boards wanting to increase wages to retain teachers have a limited potential for doing so. North Carolina has an innovative program called TEACH in which centers who enroll teachers in educational programs receive cash bonuses from the state which can be awarded to teachers in the form of wages. Under the leadership of a governor who is the father of young children and a well organized child care community, the state legislature was willing to allocate the funds for the program. But it is highly unlikely that this program could be replicated in states with less well organized child care communities or with public officials less committed to early childhood.

One way to decrease budget constraints for those centers most constrained is to alter the taxation system. As discussed in Chapter 5, proprietary centers serving low income families in small centers face extremely limited budget flexibility. These are micro-business with little growth potential yet they receive the same tax treatment as large centers serving upper income families. Given the difference in clientele served and size of center, these micro-businesses face extremely difficult budget constraints. It can be argued that because of the clientele served, these micro-businesses are performing a community service and should be rewarded for their efforts. These owners would not be willing to switch to nonprofit status because they are counting on the sale of their businesses to finance their retirements. But the potential for creating a system for assisting these businesses deserves additional research.

A somewhat easy public policy solution which would improve QEP scores is to increase the educational level of directors. Some states require directors to have early childhood education but other do not. The data indicate a strong connection between director knowledge and integration and a center's QEP score. It would be wise for the other states to follow suit. State policy makers may also want to consider encouraging the growth of early childhood professional communities. The more directors network and learn about other early childhood program, the more center policy decisions will reflect their increased knowledge.

The data did not find state regulatory environments to significantly explain variation in QEP scores. This is due to the focus of state regulations on health and safety rather than a broader array of quality factors. However there are other monitoring systems established that effectively assess quality as well as health and safety. The California State Department of Education has an effective auditing program to assess the quality of its early childhood programs. There are requirements for parent-teacher conferences, child assessments, curriculum reviews, teacher education requirements and in-service training. In my research I interviewed eight directors who are regularly audited by the State Department of Education. All of the directors felt it was a rigorous and important quality monitoring tool. In Indiana, centers receiving Social Service Block

Grant funds to serve low income families are required to be audited for program quality. According to interviews with seven centers receiving these funds, owners and directors feel the auditing program is thorough and serves as an excellent system of checks and balances.[4] Both of these programs provide excellent models for expanding child care regulations from their health and safety focus to include child care quality.

To summarize, the three main policy implications include cessation of nonprofit preferential treatment in child care policies, the shortcomings of relying solely on voucher systems to deliver child care services to low income families, and several potential directions for encouraging center adoption of quality enhancing policies. In the final section of this chapter, I turn towards future research.

Future Research

The theoretical and policy implications of this research create several promising directions for future research. One of the most interesting directions for future research would be to further explore the variation in entrepreneurial motivation within and across. The data reveal that assumptions about for-profit entrepreneurs placing profit concerns above all else do not apply to many of the independent for-profit child care centers surveyed. Likewise, many of the nonprofits were started for less than altruistic reasons. The complexity of motivations found in this research provides the basis for developing a more empirically grounded conception of entrepreneurship.

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[4]Incidentally, this program is likely to be dismantled due to the federal government's decision to reduce the SSBG and the State of Indiana's choice to invest all child care funds into a voucher program rather than direct subsidies to centers serving low income families.

While the research did not find a statistically significant relationship between governance structure and adoption of quality enhancing policies, there are interesting relationships yet to be explored. Research Question 4 identified those collective-choice rules related to higher QEP scores. The data can now be further analyzed to link governance structures to policy environments. In other words, the constitutional-choice rules can be further analyzed to assess their relationship to collective-choice rules. Additional analysis may reveal which combinations of governance structure and collective-choice rules translate to higher QEP scores.

The findings regarding the role of directors in mitigating agency problems deserves additional attention. The regression analysis reveals those centers with transaction costs greater than agency costs are associated with centers having higher QEP scores. However, for those centers with transaction costs less than agency costs several were found to have mitigating circumstances. In these cases relational contracting had evolved in which the director gained the trust of the owner or board. The basis for having such low transaction costs for these centers stems from the trust relationship. In those centers without mitigating circumstances the lower transaction costs are a result of irresponsible boards or disinterested owners. The principal-agent relationship as it relates to governance structure, monitoring, and rules-in-use warrants further investigation.

The impact of competition on adoption of quality enhancing policies also deserves further attention. For this research, I relied on the perceptions of the directors and owners for gauging the degree of competition. A more objective method of analysis would be to use Geographic Information Systems to map center locations and then combine that information with a survey of parents. This would provide the basis for determining the severity and also the dimensions of competition. Previous surveys of parents find location and price are the primary factors in parental child care choices (Mauser, 1993a). But when parents purchase child care, they are purchasing a *bundled* good. Further research is needed to understand the dimensions of the bundling and how it affects how child care centers package their services and how it affects their competitive environment with other child care arrangements.

Since previous child care research focused on measuring the quality of the services delivered, a future task will be to expand the dissertation research to the operational-choice level. Once the links between constitutional-choice and collective-choice rules and their impact on adoption of quality enhancing policies has been determined, I can then move on to research at the operational level to test under what conditions collective-choice policy decisions result in high quality child care services.

A final area of research is to expand to other mixed economies. The nursing home and primary and secondary school industries are mixed economies for toll goods with varying degrees of information asymmetry. Significant research has been devoted to the nursing home industry but less attention has been devoted to the mixed economy for education. With the implementation of voucher systems around the country and the entrance of for-profit entrepreneurs into education, the industry will undergo extensive changes.

Conclusion

This dissertation researched child care delivery in four states with different sector mixes and regulatory environments. If the significance of the variables causing adoption of quality enhancing policies are evident in such extreme regulatory environments as North Carolina and California, then there is some confidence that they can be found in less extreme comparisons. Because of the time consuming nature of the data collection, the samples are small for each state, approximately 25 center interviews per state. There is the potential that the centers selected are not representative of the population. Given that centers could decline to be interviewed, it is highly likely that a selection bias exists in the sample because low quality centers would be more likely to decline than high quality centers. If this is the case it might lower the mean QEP score for some or all governance structures but it should not affect the significance levels of the regression findings. Therefore, while it remains to be determined whether these findings will be supported by research in other states and samples, I feel confident that the findings are strong enough to contribute both to theoretical advances and policy directions.

This dissertation challenges existing nonprofit theories and provides an alternative direction for understanding mixed economies. It also contributes to policy by demonstrating the inappropriateness of nonprofit preferential policies and directing attention to the policy implications of goods with severe information asymmetry. The findings specify institutional arrangement that have an impact on centers' decision making processes regarding quality. These findings are directly applicable to child care policy decisions. In an era when welfare reform is causing the mix of mixed economies to shift and child care policy has finally reached the national agenda, the findings of this dissertation are immediately relevant to current policy debate.

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