

## **Case Report**

# **ABC Learning :: Collapse of an Entrepreneurial Venture**

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# INTRODUCTION

## Company History & Background

In 1988 Eddy Groves and his wife, Le Neve founded ABC Developmental Learning Centres' commonly known as ABC Learning in Ashgrove, Brisbane, Queensland, Australia. The organisation began its humble journey in Australia during 1988, but soon grew to become an international company renowned in providing educational and developmental care for children, around the world.

ABC Learning focused on the providing long day care services, before school care services, after school care services, vacation services. It was the vision of the organisation to 'ensure that each child was loved, nurtured and educated to give them the best possible chance in life'. To realise this vision ABC Learning created 4 building blocks, which were:

- A learning curriculum
- Nutrition & physical development
- Centre staff training & development
- Facilities & environment

The company grew first within Australia, then beyond boundaries expanding into New Zealand, UK and even the USA. ABC Learning has been enlisted in the stock exchanges from 2001, and following that its success began to grow. By 2003 ABC Learning had 43 childcare centres in Australia alone and was soon listed on the Australian Stock Exchange. Following its listing on the stock exchange ABC Learning started expanding exponentially through various mergers and acquisitions. In 2006 it acquired the second largest childcare in the US, namely La Petite and the 5th largest in the UK, Busy Bees Group Ltd, thus making it 15 times larger than its Australian arm.

Besides its offshore expansion, the company expanded into training & education. It ran the Early Childhood Training College and provided coaching and learning sessions to childcare. The company also published 'Small Wonders', a magazine aimed at parents with young children.

During April 2008, ABC Learning was forced to sell its US childcare business to Morgan Stanley. Then the proceeds of the sale were used to pay off accumulated debt. Later in October 2008 the company was put into receivership (A type of corporate bankruptcy in which a receiver is appointed by the bankruptcy courts/creditors to run the company or to recoup as much of the unpaid loans as possible) since 40% of its centres were unprofitable. A month later, in November 2008 ABC Learning went into voluntary administration as the Board of Directors handed ABC Learning over to the administrators.

Finally in December 2009 ABC Learning was acquired by GoodStart Childcare and re-branded as 'Goodstart Early Learning'. Currently it is a registered charity owned by Brotherhood of St. Laurence, Mission Australia & The Benevolent Society and Social Ventures Australia.

## **A CLOSER LOOK AT ABC LEARNING CENTRES – ITS RISE & FALL**

### **Reasons behind ABC's Success**

There were many factors which contributed to the success of ABC Developmental Learning Centres' growth. The first and most important factor to contribute to this growth was the change in lifestyle and steady economic growth of the population of Australia, UK and USA. As employment opportunities started growing, so did the involvement of women in the paid workforce start to rise.

Moreover grandparents who would traditionally look after grandchildren were less able to do so due to changes in demography or they were either living separately, or were themselves still involved within the active workforce. Also ABC Learning also had easy access to leading organisations for its necessary funds.

One of the biggest and most important factors contributing to the growth of the child-care industry was the Australian Government policy of "child-care benefit schemes" and fee subsidies that were given to the centers. The day care centers were eligible to get the benefits. As a result such child care organisations received their fees from either the parent or the government. Furthermore the 'baby bonus' paid to each family in Australia per child to help with costs associated with a new baby played a significant role in impacting the market.

All the factors stated above played a significant role in helping ABC Developmental Centres reach a mammoth size before starting to fail.

### **The Road Downhill**

ABC Learning Centres was once the largest publicly listed child-care operator in the world. In the fiscal year 2004-2005 ABC Learning Centres' recorded a net profit after tax of \$52.3 million on total revenues of \$292.7 million. It was a highly profitable company. The following six months, ending 31 December 2005 showed the company with profit after tax reaching \$38 million and revenues of \$219.8 million.

At the end of 2006, ABC Learning was trading on the share market at around \$8.80. However in less than two years later shares were worth around \$0.54 and the company had to be placed in the hands of administrators.

It had a market capitalisation of \$4.1 billion. When its shares were suspended from trading at \$0.54, the company's worth was \$296 million. The unexpected drop of 42% in profit in the second half of 2007 to \$37.1 million and its inability to service its \$1.8 billion debt was the root cause in triggering a decline in the company's share price. The economic and the financial problems rose in the wake of the global financial crisis of 2008 which ultimately led to the fall of the company.

## Factors Contributing to the Collapse

ABC Learning Centres grew so exponentially within a span of 20 years that it was quite spectacular. However many internal faults within the company is what lead to the massive fall of this enormous organisation.

**Manipulated Accounts & Lack of Transparency:** It is without doubt that there were fundamental flaws in the accounting book keeping of the company and it was not well maintained. There seems to be significant discrepancies in the revenues, profits and figures stated in the company books. Many assets had to be written off, and pre-tax earnings were inconclusive. When the company was handed over to the administrators during its receivership period, new auditors Ernst & Young informed stakeholders that the accounts of ABC Learning was highly manipulated and that the accounts would need to be reinstated.

**Related Party Transactions:** Following thorough investigation after appointment of the new auditors, it was revealed that the company CEO, Mr. Eddy Groves appointed Queensland Maintenance Services (QMS) belonging to his former brother in law Frank Zullo for maintenance works at ABC Centres. A total of \$74 million was paid for those works. Moreover the 'Brisbane Bullets' basketball team was sponsored by ABC, and it was owned by Mr. Groves.

**Liquidated Damages:** In addition to the above, ABC Learning had transactions relating to liquidated damages with 123 Global Group of Companies. ABC Learning would have 123 Global buy land, build centres, run them until occupancy rates were at a satisfactory level and then would finally buy the centres at a high price from 123 Global. Liquidated damages are the monetary compensations paid by a party if they fail to perform as per contract or there is breach of contract as per contract stipulation.

**Poor Strategic Planning & Inorganic Expansion:** Proper risk analysis was not done prior to the rapid international expansions thus making ABC Learning a highly levered company. It is the term used in business to explain the expansion of organisations through mergers and acquisitions, by creating leverage in the market on the commodities of other organisations. This was the process which ABC Learning Centres used for their expansion strategies. Through various mergers and acquisitions they crossed international boundaries and took over many daycare and childcare providers in New Zealand, UK and the USA. Due to this reason the company had huge loans and at a point those loans exceeded the capacity of the company to repay.

**Opaque Operations:** Furthermore the business operations of ABC Learning were not transparent either. It was not well devised and unclear how each center would operate, what are the costs associated with each centre, the performances of those centres and how long it would actually take for a centre to become commercially viable.

**Poor Management & Board:** Management of the company was too involved in expansion of its operations beyond national boundaries to consider the actual problems at stake. Also the members of the Board were mostly politicians who neither had the expertise nor the knowledge to deal with the childcare industry

## Main Business Features of the Childcare Industry

Childcare is a social service and resembles a cottage industry. It is still in a growing stage. As more and more women are entering the full time workforce the need for childcare is on the rise. There have been large changes in the demographics and lifestyle of people for which childcare is now becoming a necessity in certain cases.

In order to function successfully in the childcare industry there are certain business requirements which needs to be met, to allow sustainability of the organisation and also to maintain standards. Such requirements have been illustrated below:

**Licensing:** Every childcare or daycare centre must be licensed with the concerned government authorities. The authorities will check the premise and all other physical requirements prior to granting such license. Usually the concerned authorities are Department of Social Services, Department of Health/Family Services, Ministry of Women & Children and so on.

**Government Legislations & Laws:** It is very important to have strict government legislations to control the childcare industry. It is a sensitive industry and needs proper governance by the administrators to avoid negative impact on the mass society. There should be laws to govern child abuse. Also there can be laws in place to state the number of staff to child ratio at each childcare centre. Moreover the law can also include details which will address the premise requirement of centre such as bedrooms, playing area & toys, dining area, bathroom, cleanliness, window space to allow light/air to enter, kitchen, safety & security of children and so on. Unless these factors are properly regulated by some legislation, childcare centres will have a chance to fall short on its standards which can affect the children who are admitted in those centres.

**Premise Location & Playground/Playtime Toys:** An important aspect if setting up a childcare centre is the premise itself. The premise must be spacious, allowing light and air to flow through. There should be many rooms, to allow dividing children in to rooms as per their age. There should definitely be a large playing room or open field. Dining, sleeping rooms should also be present and kept clean. Bathrooms should look into the needs of infant, toddlers and children alike having low toilets to potty train infants. The play area should have various developmental toys, which will be hazard free for small children and infants

**Competent HR Personnel to Recruit & Administer Child Workers:** This is the most important aspect of the childcare centres. The HR personnel responsible for taking care of recruitment of childcare workers should have sound knowledge of the industry, childcare development so that, in addition to existing HR work, they will be able to oversee the performance and supervise the childcare workers on matters of ethics and legality. A competent and experienced person should be hired to take care of children. Also it would be beneficial if the care giver has an educational background in early child development or similar fields. Moreover a proper job analysis must be done for each child worker. The candidate should be informed prior to their recruitment the job description and the job recruitments to ensure that the perfect candidate has been taken on board. Though it is not mandatory, but female care givers can be preferred for smaller children and infants.

**Expert Governing Board:** The governing board of the childcare centre should have expertise in the field of childcare and early childhood development. They should also be

**Develop a Curriculum for Children of Each Age Group:** There should be a curriculum to address the needs of children at the childcare centre. The curriculum should be age specific and look into ways to improve language skills, general knowledge, colour skills, music & art skills of children from each age group. The curriculum should be tailored in such a way to allow children to learn through fun.

**Regular Dialogue Session between Parents & Teachers:** Each childcare centre must have regular feedback session with the parents of the children staying at their centres. These sessions will be to update parents on the activities of their children, to inform them of any reason for concern due to delay in developments, to encourage parents of their children's achievements. The sessions will also focus on the concern of the parents, and any suggestions if any. Suggestions taken from the parents should be given particular importance by the management of the childcare centres.

**Nutrition & Physical Development Guide:** The childcare centres should also devise a nutrition and physical development guide by which they should abide by. The guide will help the childcare workers stick by rules in regards to feeding and meals. It will also help outline the basic developmental milestones to be achieved by a child of each age group to figure out what how a child might be falling behind their milestone target.

**Training & Development of Childcare Workers:** It is the responsibility of the childcare centre to provide training & development to their staff and childcare workers regularly. This way the policies and necessary guidelines will be regularly revised so that workers are reminded of what is legal and what is not. Also new knowledge can be shared with the staff and workers to give them insight on how to improve their current practices of taking care of children.

**Facilities Maintenance & Environment Development:** It is important that each childcare centre is regularly checked for maintenance issues and matters are resolved with utmost priority. Also the childcare centre authorities must look into new avenues to develop and improve the environment to make it more friendly and lively for children in the childcare centre.

## RECOMMENDATION

### Compensation Policy Regime suitable for a viable childcare industry

The childcare industry is a developing industry. Government policies and legislations are yet to have a strong hold over the industry. It is still mildly regulated which is why many loopholes and gaps exist allowing childcare centres to stray from the right path.

Even the childcare workers who are employed full time in this industry are not under any strict Labour law or regulatory regime, which is why they fall victim to the many wrongdoings of the owners of the childcare centres.

The most important aspect for standardizing the compensation policy of the childcare workers will begin with recruiting the right personnel as a childcare worker/staff. The recruitment procedure should look into the following aspects before hiring a person:

- Educational background in Early Childcare & Development
- Years of Experience in the Early Childcare
- Interests of the Childcare Worker
- Age of the Worker & Parental Status
- Any health complications of the Childcare Worker, and if it's Contagious
- References of the Worker

By addressing all the above factors it'll be easy to then identify the virtues and shortcomings of any childcare worker/staff. Then based upon the results achieved the most appropriate approach to implement in this industry would be the '**skilled based pay**' structure. This would not be only applicable for the childcare workers, but also relevant for any other functional personnel employed in this industry, including accountants, HR, maintenance services, support staff, and so on.

The skilled based structure can be divided into 2 categories based on the skills to address the needs of this industry. They are:

- Specialist: for the childcare workers who will be employed in this industry. Their in-depth knowledge, experience and skills to deal with children from various age-groups will determine the level of pay
- Generalist: this pay will be relevant for all others who will be a part of this industry, ranging from the CEO, to the accountants, HR personnel, maintenance workers, cleaners, security personnel and so on. This is because these people will be involved in various activities and will have a general knowledge of the overall activities and needs of the childcare industry

Though this compensation policy regime is quite complex and will require a lot of research before it can be implemented at a national/international level to the industry, it would still be the most appropriate. This is because in most cases it can be seen that childcare workers are paid a very bare minimum salary

despite the childcare centres charging high fees to the parents for the childcare services. In the case of ABC Learning Centres, it was also observed that childcare staffs were deprived of their basic entitlements, along with uncertainty about their job securities. Also their long service leave entitlements, holiday encashment and redundancy payments were due, which never got fully paid.

## **CONCLUSION**

ABC Learning Centres had indeed tapped into an industry where there was huge demand for quality childcare services. However due to lack of proper administration, planning and supervision, the childcare giant had to fall crashing down.

The childcare industry is fairly new, with a history of only 20 years or so. It is still un-regulated by the authorities and needs serious attention for being controlled, not only in terms of its services, but also for those who are employed in the industry. The concerned authorities need to focus on the people who are also being employed, look into their experience, knowledge and interest, and start on devising a compensation regime which will be based on their necessary skills and knowledge.

The industry is still developing and there are huge opportunities for expansion and growth as the demand for quality childcare is increasing day by day. It is time that the government and local authorities looked seriously into the matter and brought it under strict regulation.

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