ABSTRACT

Last March, Net Impact, together with the Annie E. Casey Foundation, challenged four teams of business students from across the country to develop a business case for responsible community investment by anchor institutions. An intensive process of research and analysis revealed that Yale’s three-decade effort to expand their student body serves as a prime example of the benefits of a university’s responsible reinvestment in its home city.

After performing an extensive stakeholder analysis of community investment efforts by Yale University, which included interviews with representatives of the key stakeholder groups identified, the Yale team in this project utilized a counterfactual framework and the case of the attempt at the construction of the thirteenth and fourteenth colleges by the University in the 1970’s to try to derive a return on investment (ROI), and thus make a business case, for community investments by anchor institutions.

In improving its processes in order to reach its goals, an organization may take two paths: the “working harder” path or the “working smarter” path. With the counterfactual idea in mind, we asked ourselves what would have happened had Yale made long-term investments in its surrounding community and in its relationship with the City of New Haven in the specific case of the construction of the colleges. We found that, in terms of forgone benefits, at least from tuition and alumni giving, the costs of not being able to build the colleges was over seven times the investment Yale has performed in New Haven in the last 13 years.

Whereas we could not find an ROI due to the lack of availability of data on the cost per student for Yale, we believe the information gathered and methodology developed through this project is enough to make a business case for community investment by anchor institutions and constitutes a replicable methodology for institutions located in urban settings, specially old industrial cities.
INTRODUCTION

On June 6, 2008, Yale University approved the construction of two new residential colleges, which will, upon their completion in 2013, allow the university to expand significantly for the first time since 1962. Stakeholders from throughout the Yale and New Haven communities attended the groundbreaking ceremony in the newly revitalized Dixwell neighborhood, just steps from downtown and the rest of campus. And while the fanfare of the ceremony and the camaraderie between university representatives and local elected officials seemed natural, less than 30 years ago the event would have been impossible. In the early-1970s, blight and crime were the hallmarks of Dixwell, and tensions between Yale and the city ran so deep that New Haven’s mayor and Board of Aldermen changed city regulations to prevent the university from expanding. The residential colleges that Yale was breaking ground to build had been in the university’s plans since the late 1960s; it took more than 30 years before the relationship between the Yale and New Haven would be strong enough for those plans to be realized.

Last March, Net Impact, together with the Annie E. Casey Foundation, challenged four teams of business students from across the country to develop a business case for responsible community investment by anchor institutions. An intensive process of research and analysis revealed that Yale’s three-decade effort to expand their student body serves as a prime example of the benefits of a university’s responsible reinvestment in its home city.

When Richard Levin became president of Yale University in 1993, he made the strength and health of New Haven a university priority. In his inaugural address, he told listeners, “We contribute much to the cultural life of New Haven, to the health of its citizens and to the education of its children. But we must do more.” In his effort to “do more”, Levin established the Office of New Haven and State Affairs and appointed Bruce Alexander as Vice President for New Haven and State Affairs and Community Development, a new position within Yale. Under Levin and Alexander’s leadership, Yale has invested millions of dollars into the community. In addition to being the city’s largest employer
and taxpayer, the Yale has helped the city through a myriad of programs, like the Yale Homebuyer program, which has assisted over 900 homeowners buy property in New Haven.

While Levin emphasized that Yale’s responsibility to New Haven was part of the university’s mission, he also made it clear that an investment in the city was a pragmatic one for Yale. Anecdotal evidence throughout the last 15 years indicates has long indicated that Levin’s pragmatic instinct was correct. Our analysis proves quantitatively that the benefits of these investments have not been one-sided. The positive relationship between Yale and the New Haven community that developed as a result of the university’s investment in the city has allowed the university to grow and prosper.

**Investing in New Haven**

Yale University was founded in 1701. In the two hundred and fifty years from its inception through the middle of the 20th century, it was a local and regional university, primarily educating students from New Haven, Connecticut, and, eventually, other New England states. By the mid-1900s, however, Yale began to move in a new direction. In 1961, Inky Clark joined the Yale Committee on Admissions and in 1964, he was selected to be Dean of Admissions. His goal was to “design quite a different student body than the one we have now…an intellectually stronger and more diverse student body.”

Yale focused its efforts on becoming a premier national and global university.

This change in strategy came at a time when groups within the New Haven community already felt excluded from Yale’s elite world. As one lifelong New Haven resident describes it, “Every family in New Haven wanted their son or daughter to go to Yale because it offered the possibility for a better education and better future. There was an awe of Yale and a sense, for Italian families in New Haven, that it was not in the cards.”

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2 Interview with Rosa DeLauro
Much of New Haven already felt like Yale was a distant, inaccessible place, despite the fact that in the 1950s, the largest feeder of students to Yale was New Haven’s Hillhouse High School. Clark’s decision to recruit students from across the country further widened the divide between the city and the university.

As the town-gown relationship disintegrated, so did New Haven’s manufacturing industry and, with it, the city’s employment base and economy. Slowly, New Haven was becoming a company town, with Yale as its biggest employer. Crime rates soared through the 1980s and New Haven became less and less desirable as a place to live and work. In 1991, Yale sophomore Christian Prince, a legacy student and a popular lacrosse player, was murdered on the steps of a church in the middle of campus. It became clear to all of the decision-makers within the university that there needed to be major changes in the relationship between Yale and New Haven if the university was going to continue to be an elite institution, attracting the best students and faculty from around the world.

Levin and Alexander’s Office of New Haven and State Affairs has spearheaded the change Yale’s management knew was imperative. The university has clearly documented the impact of that office’s initiatives on New Haven and the region, including:

- paying the City more than $10 million in taxes, voluntary payments, and fees annually;
- employing over 11,000 people and contributing more than $1 billion per year to Connecticut’s economy;
- providing college scholarships of up to $14,200 per year for employees' children attending college anywhere in the country;
- and providing services and programs to 10,000 public school students in New Haven every year.

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3 Interview with Doug Rae
What is not documented well, however, is the impact of those investments to the university. It was that impact that we sought to determine, measure, and quantify in this project.

THE UNIVERSITY STAKEHOLDER LANDSCAPE

To understand the benefits to Yale from the university’s investment in New Haven, we first sought to identify the key stakeholders of the university and their priorities. This was naturally a dynamic process because the community investments carried out by the university have an impact on a wide and interconnected web of people, most of whom have different interests and concerns.

We modeled our stakeholder analysis on the work of David Baron. In his literature on strategic management, he emphasizes that it is crucial for an organization to look both inwards at its own capabilities and outwards at the environment in which it is doing business, developing strategies for these two environments simultaneously. Baron breaks down an organization’s outward-focused environment into two smaller categories, the market environment and the non-market environment. The market environment is the space in which an organization seeks to create economic value, and, thus, is often the primary focus of management. However, the non-market environment is equally important because it shapes the market environment and creates conditions that can determine performance.

Baron argues that in examining its non-market environment, an organization should pay attention to its interactions with and among the public, government, the media, and public institutions, among other stakeholders, seeking to create value by influencing that environment and, as a result, improving its market environment.
More specifically, Baron classifies any organization’s non-market environment into what he calls the Four I’s:

- Issues
- Institutions and Individuals
- Interests, or the preferences or stakes of different individuals, groups and institutions on a particular issue
- Information, which refers to the knowledge and beliefs the different institutions or individuals have about one another and about the relationships between actions and consequences

In our stakeholder analysis, we reviewed academic and non-academic literature to identify the issues driving universities generally and the individuals and institutions that were key to Yale’s specific mission and operations. We determined that there were three key issues driving university operations: ample funding, campus expansion and facility improvements, and the recruitment and retention of high-quality people. We used these issues to frame our questions for a dozen interviews with stakeholders from inside and outside of the university.

Two important findings came out of our interviews and primary research. The first is that the issues of a university are complicatedly interconnected, and are, thus, nearly impossible to isolate and monetize.

Take, for example, the university’s effort to increase undergraduate yield and retention. According to Jeffrey Brenzel, the Dean of Admissions at Yale College, “The overall trend of the last 15 years is clear: yield has moved from ~53% at the beginning of Levin’s presidency to ~68% now.” The source of that increase, however, is less clear. As Exhibit 1 shows, student retention and yield is dependent on a number of factors, including faculty recruitment and retention, the amount of effort and money that goes into recruiting, financial aid, the renovation and construction of facilities, Yale’s public reputation, and the livability of New Haven. While at first glance it seems that only the
livability of New Haven is directly related to Yale’s community investments and the work of the Office of New Haven and State Affairs, in fact, all factors except the student recruitment efforts, are related to the Office’s Strong Neighborhoods priority.

Exhibit 1

The second finding from our research is directly related to the complexity and interconnectivity of this web. Because the benefits to Yale of responsible community investment are so difficult to isolate, the best way to quantify and monetize Yale’s benefits is not by measuring what the university gets as a result of its investments but, instead, by measuring what the university loses by not making these investments. Using a counterfactual example provides a way to determine Yale’s return on responsible investments in the New Haven community.
A BUSINESS CASE FOR RESPONSIBLE COMMUNITY INVESTMENT

The most illustrative counterfactual example we discovered through our research was the case of Yale’s residential college expansion described earlier in this paper. After drafting plans for the colleges and conceding to an increasing series of demands by the city, Yale withdrew its permit application in 1973, putting the project on hold indefinitely. The tensions between Yale and New Haven had created a political climate in which university expansion was impossible. Yale’s initial attempt to build its thirteenth and fourteenth residential colleges was thwarted by the New Haven Board of Aldermen and would stay unrealized for over 25 years.

That gap in building, and the costs associated with it, is the cost to Yale for NOT responsibly investing in the New Haven community. Consequently that amount is also the benefit Yale would have received had it invested in New Haven in the 1960s at the level it has invested throughout Levin’s tenure. Had Yale invested in its surrounding community and in its relationship with the city of New Haven, it likely would have been able to go on with its original expansion plans. While a series of other factors come into play in this kind of undertaking, our research indicates that Yale’s relationship with the city stood out as the main factor halting the project.

To calculate the amount of benefits Yale forewent as a result of not being able to push the expansion forward in 1973, we projected A. the amount of lost revenues from tuition in the years from 1973 through 2004, the year when President Levin first mentioned the current project to expand the Yale College infrastructure, and B. the amount of deferred donations from the alumni that would have attended those colleges. The figures were based on statistics available at the Yale Office of Institutional Research website and the calculations are available in an attached spreadsheet.

However, not only did Yale fore benefits as a result of not being able to build the colleges, it also incurred costs its would not have had to shoulder had the University
invested in a long-term relationship with the city of New Haven. In order to account for these additional costs, we estimated **C. lost legal fees and architect fees paid** and **D. lost senior staff planning and supervision hours**. The summary of these costs and of the foregone benefits described above can be found in the table below.

Table 1

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
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<tbody>
<tr>
<td>A. Foregone Tuition Revenue</td>
<td>$889,184,870</td>
</tr>
<tr>
<td>B. Fore Alumni Donations</td>
<td>$136,550,067</td>
</tr>
<tr>
<td>C. Lost Legal Fees and Architect Fees</td>
<td>$480,000</td>
</tr>
<tr>
<td>D. Lost Senior Staff Time</td>
<td>$26,667</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,026,241,604</strong></td>
</tr>
<tr>
<td>E. Investment in New Haven Since 1994</td>
<td>$133,000,000</td>
</tr>
<tr>
<td><strong>Cost of Project Refusal as a % of Total Community Investment</strong></td>
<td><strong>771.61%</strong></td>
</tr>
</tbody>
</table>

*Numbers in 2004 values.*

**This number is not the ROI**

The table also presents an estimate of the amount of money invested by Yale in the surrounding New Haven community based on statements from President Levin present on the website of the Yale Office of New Haven and State Affairs.

With these numbers in hand, we found that the cost of the delayed construction of the colleges project for Yale is 7.72 times the amount of resources invested by the University in New Haven over 10 years. Moreover, apart from monetary values shown above, the inability of the University to continue expanding and receiving more students in the three decades between 1973 and 2004 has kept the institution from expanding and fulfilling its mission.

In trying to further understand the value to Yale of investing a positive long-term relationship with the New Haven community, we used the process improvement framework provided by Repenning & Sterman. According to this framework, there are two types of processes through which organizations may achieve or desired goals. We call one of the processes the “work harder” path and the other the “work smarter” path.
In the work harder path, an organization has a short-term view of its processes as it tries to achieve its goals as fast as possible by deploying ever-growing amounts of resources (money and energy). These objectives are barely achieved in this path, i.e. the work harder path tends towards unsustainability and, as it intensifies, it takes away the ability of the organization to go on a more sustainable path, the work smarter path.

Working smarter refers to a longer-term view of the processes an organization undertakes to achieve its objectives. Here, resources are applied to build the capacity of the organization so that it is able to consistently achieve its goals using fewer resources than in the work harder path. Even though there is a time lag necessary for learning and capacity building within the organization, the benefits of the work smarter process are reaped for a longer period of time, again, allowing for greater sustainability of the results achieved.

Exhibit 2 illustrates the application of Repenning and Sterman’s framework to the university’s efforts to increase student yield and retention, with potential short- and long-term approaches to meeting the desired end goal represented by two loops. Yale’s Office of Undergraduate admissions faces pressure from multiple stakeholders annually to increase student yield. When the relationship between the city and the University was weak, the only way the admissions office could increase yield was by increasing the amount of money and resources spent on student recruitment efforts and financial aid. While increasing financial aid and recruitment efforts achieves any university’s yield, both strategies are unsustainable because of financial constraints.

A more sustainable path to increasing student yield is to change in the way resources are spent. Under Levin’s leadership, Yale has invested in aspects within and outside of the university that affect the decision of students an faculty to become part of this community: livalibility of New Haven, Yale’s reputation, expansion, renovation and expansion of facilities, opportunity to learn through real world, hands on projects, etc.
Among these, community investment by Yale constitutes a fundamental element of the long-term effort of the University to fulfill its mission.

Exhibit 2

This framework, taken in conjunction with the counterfactual example of the residential colleges provides us with a new way of measuring the return to Yale, or any anchor institution on investments in their community.

CONCLUSION

Yale’s decision to invest in New Haven has not only benefited the city and its residents and helped the university fulfill its mission, it has allowed Yale to better perform its strategic operations.

To best measure the return on investment to Yale University – or any anchor institution – for making responsible investments in its community, it is imperative that one
understands the stakeholder landscape and interconnectivity of issues and priorities within that institution. Even with this understanding, however, it is still difficult to quantify and monetize this return because of the complexity inherent in any anchor institution. A more effective way of measuring the value of long-term investments in an anchor’s home community is by calculating the cost of not making those investments, or the cost of working harder instead of smarter.

It is our hope that this method of calculating return will help motivate anchors around the country to invest in their communities.
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