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Replacing The Indispensable: Leadership Challenges At Think Tanks

By Alejandro Chaufen – July 18th, 2013

Champions of free-enterprise have always focused on the importance of ownership as essential to economic progress. In recent decades, especially after *Instituto Libertad y Democracia*, Lima, Peru, published “The Other Path” during the 80’s, many studies focused on the importance of clear and secure property titles. Ownership provides incentives to create, innovate, and produce. It also opens the access to capital and encourages better stewardship.

Think tanks are growing in size and number. Work to promote economic freedom usually takes place in non-profit think tanks and universities. Non-profit organizations tend to lack a clear ownership, especially after the founders have died or retired. Does this lack of clear ownership affect the success of think tanks as much as it affects the success of an economy?

Although one can easily define who owns a for-profit corporation, it is much harder to define who “owns” a non-profit. The charters and articles of incorporation define who governs and who and how one can, for example, change the mission, elect authorities or dissolve the non-profit. The dispute last year at the Cato Institute that led to a change in leadership was, in great part, a discussion about ownership.

These issues which can greatly affect the long term success of think tanks are not just a matter of law. Those who have devoted their lives to working at think tanks and those who have made important donations, are not legal owners, but how can we describe them? Are they “spiritual owners”? “Stakeholders”?

I have strong doubts about the usefulness of the “stakeholder” concept for for-profit companies. It tends to diffuse corporate responsibility. There might be more reasons, however, to include it in the analysis of non-profits.

There are a variety of stakeholders in think tanks. For example: Think tank employees who bring major resources to the think tank can be regarded as spiritual “shareholders”; if a donor gives money for a specific department of a think tank, those in that department also become stakeholders; donors who give relevant donations for general purposes, apart from being “spiritual shareholders,” are also stakeholders. All types of non-profit “ownership” are weaker than in a for-profit. No one can sell their shares and pocket the proceeds.

Owners of a private company usually provide initial capital and attract resources. Some also have responsibility for allocating them. Senior staff and star researchers at think tanks also bring resources to the organization and have some responsibility for their allocation. When that

happens they become as quasi owners, or “spiritual owners.” The degree of ownership is in relation to the amount contributed.

Senior staff often bring more donations than what is contributed directly or indirectly by the board of a think tank. In investment firms, investors develop a relationship with their investment manager. When managers leave, they might start a new firm and usually take a sizeable portion of their clients with them. The same can happen at think tanks. After several leadership disputes, as the one that took place at the Pacific Research Institute in the 80’s, and with Citizens for a Sound Economy, CSE, in 2004, those who considered themselves spiritual owners of the organization but were displaced, formed new groups and took some of the stakeholders with them. Changes in the Pacific Research Institute led to the founding of the Independent Institute in Oakland, California in 1986. The dispute at CSE led to two organizations, Americans for Prosperity and Freedom Works.

In most transitions, so far, trustees have tried to retain the talents and resources of their former leaders. Such was the case at several of the most relevant free-market think tanks in North America. They include Reason Foundation, one of the first to make changes, Fraser Institute, Heritage Foundation, Competitive Enterprise Institute, AEI, and Cato. So far, only Chris DeMuth, the former President of AEI, severed most ties with his former organization. Bob Poole, Michael Walker, Ed Feulner, Fred Smith, and Ed Crane, continue to work, under different arrangements and formal titles, for the think-tanks they helped prosper. It is too early to know which transition worked better. The Foundation for Economic Education (FEE) had seven leadership changes. Leonard E. Read, its founder and spiritual owner did not leave a transition plan. Since the death of Read, until the arrival of Larry Reed, its current leader, FEE grew less than all the groups mentioned above. When the next transition comes, Reed, a talented intellectual entrepreneur, and his board, will be able to study at least one dozen cases that can serve as guides.

My views on ownership and transitions at think tanks have been evolving. During these last three decades I have been on boards of over a dozen think tanks. Two thirds had leadership transitions. Each was a new learning experience. So far, most boards realized the importance of stakeholders and “spiritual owners.” Most agree that improving our understanding of ownership is as essential for think tanks as for a healthy economy.