

# SKIP'S 9TH BLOG

## **Lessons from the UVA, Cato Wars**

**by Skip Oliva**

During a roughly 24-hour period spanning June 25 and June 26, two uprisings in the nonprofit world came to a sudden end. The first dispute involved the decades-long personality conflict between Cato Institute president Edward Crane and his benefactor-turned-archenemy Charles Koch. In March, Koch sued Crane for control of Cato under a long-dormant shareholder agreement that, in theory, gave Koch and his brother majority control of the organization following the death of the fourth shareholder last October.

As I wrote in the early days of the conflict, this was a simple case of two old men refusing to compromise. Koch didn't really want control of Cato so much as he wanted Crane to lose his control. Crane, in turn, refused to retire as president until Koch agreed to end the shareholder agreement and allow Cato's board, controlled by Crane loyalists, to determine his successor.

The final settlement, announced June 25, reflected the inevitable compromise. Koch agreed to end the shareholder agreement and vacate his own board seat. Crane agreed to retire by the end of 2012. Both agreed on a successor CEO, former BB&T chairman and Objectivist financier John Allison. In effect, Crane and Koch both gave up using Cato as an instrument of their personal feud.

This outcome provided an interesting contrast to the second nonprofit dispute I mentioned at the beginning, this one involving the University of Virginia, a couple hours down the road from Cato's Washington offices. UVA, famously founded by Thomas Jefferson in his post-presidential retirement, faced a similar leadership revolt when, on the morning of Sunday, June 10, President Teresa Sullivan unexpectedly announced her resignation. It was unexpected since Sullivan had only served as president since 2010, and there was no public indication of any problems with her tenure.

As we quickly learned, there were problems behind-the-scenes, notably with Helen Dragas, the chairman (or rector) of the school's governing board. It was Dragas who approached Sullivan on the weekend of June 10, informed her that a majority of the board would vote to fire her, and offered her the "choice" to resign. Dragas never offered a specific indictment of Sullivan's shortcomings, preferring to speak in limited, broad statements about the economic problems facing a large, state-supervised bureaucracy like UVA at a time of dwindling tax support and increased student debt. Dragas, like most of the board members, has a business background, and she seemed to think that UVA should

be run by someone with more business savvy than a career academic bureaucrat like Sullivan.

Like the Koch-Crane argument, conventional wisdom quickly and furiously coalesced around the incumbent leader under siege. Back in March we saw a near-unanimous refrain from the Beltway libertarian crowd in support of Crane, despite the strength of Koch's legal position. It didn't matter if Koch was right, the Crane allies said, only that we preserve Cato's "independence" from the corporate influence of Koch. It was an leftist attack that Sullivan supporters repeated with gusto immediately following the president's forced resignation. Within days, the previously unknown Dragas, a real estate developer from Virginia Beach, was turned into the second coming of Sarah Palin, a dimwitted representative of the anti-intellectual right determined to sell of UVA to the highest corporate bidder.

Both conflicts generated a humorous cavalcade of unproven conspiracy theories. Crane supporters saw a nefarious campaign to turn Cato into an arm of the Republican Party. Some Sullivan backers thought they saw Goldman Sachs hiding in the shadows, lying in wait to claim a new online educational business baring the UVA name.

Certainly the secretive nature of the opposition did little to help their respective causes. There is a perfectly valid criticism of "businessmen" as being too much in love with secrecy and proprietary information. This naturally chafes against the nonprofit structure, which is supposed to be member-based and more transparent. Koch was slow in presenting his case against Crane to the public. Dragas stonewalled any effort to elaborate on her still-not-very-clear reasons for wanting Sullivan out. This not only opened the door for wild conspiracy theories, but effectively prevented any meaningful public debate over the legitimate issues that led to the disputes in the first place.

As noted above, the Sullivan-Dragas fight had a much different ending than the Koch-Crane feud. Under pressure from Virginia Gov. Robert McDonnell—who is the only "shareholder" when it comes to appointing UVA board members—everyone agreed to just pretend the whole thing never happened. On June 26, Dragas led a unanimous board in "reinstating" Sullivan. Shortly thereafter, McDonnell reappointed Dragas to the board, where she remains chairman. All that was missing was Bobby Ewing stepping out of the shower.

If one didn't know any better, one could say both the Cato and UVA crises were elaborate hoaxes designed to increase the nonprofit organization's profile at a time when both are struggling to come to terms with the economic downturn. They certainly proved to be useful distractions. Nobody was talking about the substantive problems each organization faced, only the process by which leadership should be decided.

And even those process arguments led nowhere. Cato handed the reins to John Allison, a retired business executive in his 60s with no track record running a nonprofit

organization. UVA returned to Sullivan, a career bureaucrat in her 60s with no clear plan going forward. Both organizations now have de facto interim presidents who will simply bide their time until some other alternative presents itself.

That may have been what Charles Koch and Helen Dragas, the two villains in the public's eyes, were trying to avoid all along. While Koch and Crane had a long personal history, Dragas and Sullivan did not appear to have any personal animosity before recent events. For all the efforts to impart some nefarious, anti-academic motive to Dragas's actions, a simpler explanation may be that she realized Sullivan was never the long-term answer as president. Generally speaking, universities don't hire first-time presidents in their 60s, particularly individuals like Sullivan with no previous ties to UVA.

The board likely hired Sullivan in 2010 as a short-term placeholder until they could figure out a long-term plan. Dragas probably saw no reason to wait and made her move without bothering to mobilize public support first. The "public" in this case being primarily UVA faculty, they immediately recoiled at any effort by an "outsider" like Dragas to assert herself.

The one question nobody has asked during or after the UVA crisis is why Sullivan never bothered to stand up for herself. By every account, when Dragas approached Sullivan and said she had the votes to oust her, Sullivan just walked away. She never demanded a board meeting to plead her case. She didn't even stay in town while the faculty mobilized in opposition. Sullivan basically said and did nothing until the board reinstated her two weeks later.

Contrast this to Ed Crane, who let it be known to all that Charles Koch's aggression would not stand. Publicly, Crane said little like Sullivan. But everyone who paid attention understood that Crane was directing the battle. That's because Crane knew he had no other options. While there were threats early on that Crane would take his supporters and start a new organization, nobody really thought that was a serious possibility. If Cato collapsed, its staff would scatter among dozens of other libertarian groups. Crane himself was not beloved by most Catoites so much as feared.

That's another critical point to understand. The public support for Crane and Sullivan did not reflect their actual importance as leaders. They were both symbols of a vague notion of "independence" by the respective staffs. Neither the Cato policy wonks nor the UVA faculty wanted to believe that anyone from the outside, "business" world could control them.

Unlike Crane, Sullivan knew she didn't need the CEO job. She would have remained on the faculty as a tenured professor even if she hadn't regained the presidency. And several other universities would have offered her top-level administrative posts. Sullivan didn't fight back because she knew the bureaucratic culture of academia would still provide for her. Ed Crane didn't have that luxury.

So what are the “libertarian” lessons in all this? The first lesson is that bureaucracy values process over substance, which in turn makes large organizations slow to respond to market pressures for change. The second is that you can’t simply say nonprofit organizations should be run “like a business.” This was the mistake Koch and Dragas made in waging their respective fights. Nonprofit organizations are about the members who support the organization rather than shareholders. Charles Koch got caught up in vindicating his legal rights over an organization he hadn’t significantly supported in years. Dragas acted like a dictatorial CEO in a situation where she needed faculty and public support to succeed.

The third and final lesson is that top-down leadership is irrelevant when it comes to genuine progress. Cato and UVA depend heavily on their physical presence to maintain the facade of social importance. Yet as I commented in an earlier Koch-Crane article, libertarianism in particular needs fewer “shopping malls” like Cato and more farmer markets. The same is true for higher education. Everyone at UVA is so concerned with maintaining the social standing of “Mr. Jefferson’s University” that nobody is asking how to best accomplish the Jeffersonian ideal of providing a meaningful liberal education to the broadest possible audience.

Libertarians need to learn from the mistakes of Cato and UVA by working to build new, smaller groups that put ideas first and process a distant second. Nonprofit organizations are a means to an end, Cato and UVA’s examples to the contrary notwithstanding.

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