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When You Can't Trust the Trustees

By Pablo Eisenberg

For 11 years Benjamin Ladner conned American University into giving him as president a princely salary, generous benefits, and a personal expense account for his wife and himself worthy of a greedy corporate chief executive.

In exchange, he raised a great deal of money that helped the university build and rehabilitate many campus structures, develop a grand new arts complex, and upgrade numerous academic programs. But along the way he developed an acute sense of personal entitlement and grandeur that eventually ensured his demise.

The situation at American University is a cautionary tale for nonprofit groups of all kinds, and one that raises many questions: Was Mr. Ladner's fund-raising prowess worth so much to risk the university's image? Was the institution sufficiently transparent in its financial disclosures? Did it consider ethical matters as well as legal ones in its handling of the controversy? Why did the Board of Trustees permit its leader to keep spending more and more university money on his personal needs over such a long period of time? Why do some trustees say they never saw important documents, like extensions of Mr. Ladner's contract?

Mr. Ladner's fall from grace was triggered by an anonymous letter to several trustees last spring, alleging gross improprieties in charging personal expenses to the university.

Investigators for the university then examined nearly $600,000 in items such as hotels, airline tickets, food, a private chef, household items, a social secretary, and other costs Mr. Ladner and his wife had incurred to determine whether those should have been personal or university expenses.

Eventually, the investigators said Mr. Ladner owed the university $125,000 for personal expenses, and that $398,000 in other charges he made must be reported to the Internal Revenue Service as part of his taxable income.

Mr. Ladner clearly thought he had enormous latitude in determining which personal expenses he could properly charge to the university as the cost of doing his job. Even today, while acknowledging a few mistakes, he steadfastly believes that he did no harm to either himself or the university.

The inexplicable lassitude and indifference of the trustees apparently encouraged this belief.

When Mr. Ladner negotiated with the university in 1997 to renew his contract, his sense of entitlement was reinforced. Many board members say they never saw the contract, which offered him a well-paid job for life unless he was fired "for cause" and other lucrative payments; at least one board member says Mr. Ladner last year requested a $1.12-million bonus and $5-million in retirement payments to maintain his current way of life after he retires. That is on top of the more than $600,000 in salary he received according to the university's most-recent informational tax returns.

After the preliminary investigations, the trustees suspended Mr. Ladner. This month they fired him, but not before they had split into several factions and hurled accusations at one another. One group wanted to retain him as president with fewer benefits and more restrictions on his spending habits, stressing his great contributions to the university. An apparent majority felt he had to go. In the process the board chairwoman resigned, as did two other trustees.

Surprisingly, it took the trustees eight hours to make the decision to fire him, despite the strong opposition to Mr. Ladner by the student body and faculty members.

Even then, the board members could not decide on the size of his severance package or whether to abide by his contract's provision that he receive a tenured professorship at a salary 20 percent higher than the current highest-paid faculty member. The board plans to discuss those two items at its next meeting.

What is breathtaking in this affair is Mr. Ladner's greed. As president of a university that has just 11,700 students, his salary and benefits totaled at least $800,000, not to mention free housing, a leased car, and a chauffeur.

This spending came at a time when student tuition costs were increasing and faculty members received only small raises.

Mr. Ladner's avarice and activities are reflected in the growing corporatization of the nonprofit world, with its cult of the CEO, special benefits, and emphasis on celebrity. And, indeed, many universities are becoming corporate structures, standing for little or nothing, their CEO's reduced to little more than well-paid fund raisers, their activities largely separated from the communities in which they live.

In many cases, chief executives have only tenuous connections to the faculty, students, and academic programs, leaving these responsibilities to the provosts and deans. Mr. Ladner is not unique; he is symptomatic of a growing group of overpaid, self-important university and nonprofit leaders.

Much of the responsibility for this development must fall on university trustees who themselves are increasingly concerned only with raising money.

At American University, they seemed to be willing to overlook the president's transgressions as well as the need for financial transparency as long as he was raking in the money. Until the leaked letter to several trustees, they had not required thorough audits of the president's office. Even after the revelations of Mr. Ladner's inappropriate expenses, many were reluctant to take action, because they were his friends and he had delivered what the trustees wanted.

Until very recently, 18 of the 25 American University board members were active or retired corporate executives. Two others were high-powered lawyers with prestigious law firms.

This is not a board designed to reflect a variety of experiences and viewpoints, including those of students and faculty members, nor one that is well suited to provide the rigorous oversight that boards should exercise. Corporate executives are used to high salaries and benefits, perks such as first-class travel and expensive lodgings and, in general, living high on the hog. Compensation scandals at the James Irvine Foundation, the J. Paul Getty Trust, and other groups were the result of insensitive, irresponsible corporate board members who thought their own way of life was appropriate for leaders of nonprofit organizations.

Universities need to think more seriously about appointing broadly diverse boards instead of stuffing them with corporate executives who they hope will bring them money.

Universities need trustees who can and will provide tough oversight, not only over financial matters but also over the quality of academic programs and the university's relationship to the cities and towns that surround their campuses.

Mr. Ladner, who taught ethics in his days as a faculty member, apparently lost his moral compass, bringing shame and embarrassment to an important institution. The trustees should have the courage to give him only the most minimal severance pay and to deny his request to remain at the university as a tenured professor. Such a decision would send an important message to all tax-exempt organizations: that the nonprofit world must be the repository of integrity, accountability, and selfless leadership.

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