Nonprofit Finance Fund

Rising in Stages

HOW STEPPENWOLF EXCELLED, FIRST ON THE BOARDS, THEN IN THE BOARDROOM, AND ULTIMATELY ON THE BALANCE SHEET

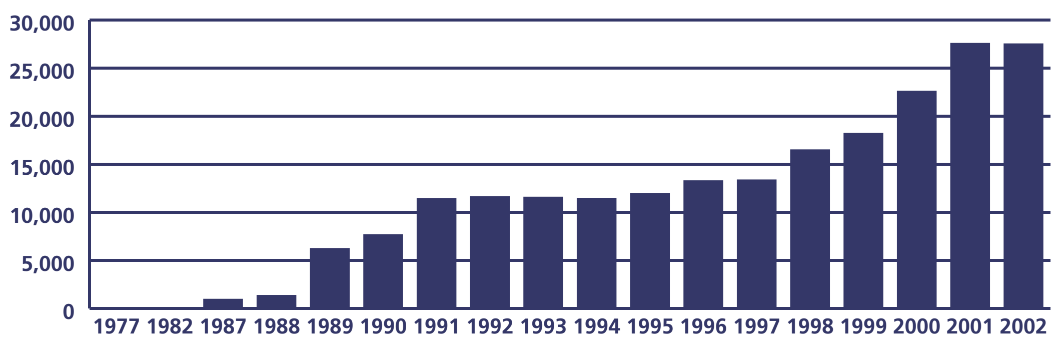
An Unfinished Drama in at Least Three Acts, Probably More

BY TONY PROSCIO AND CLARA MILLER
with Alice Fisher, Jason Kuschner, and Wells Chen

Spend a few hours touring the offices, stages, production facilities, and other real-estate holdings that are now the Steppenwolf Theater Company, and it can be hard to conjure the delinquent little outfit that a founder once described as "subtle as 400 Ex-Lax." In a warren of cubicles and workstations seemingly lifted from the *Dilbert* comic strip, with blinking spreadsheets and scrolling databases and network file servers whirring in every corner, a tattered poster from Sam Shepard's *Buried Child* or Lanford Wilson's *Balm in Gilead* may be the only reminder that this remains the home of what one drama critic called "gangsta theater" — epicenter of a ferocious and combustive dramatic style — and at the same time, of what may be the most revered acting ensemble in the United States.

The story of how a small troupe of undergraduates morphed into a national institution is, at least in theater circles, already a matter of legend. The less-told tale (though scarcely less dramatic) is the one lurking behind the cubicles, spreadsheets, and servers: how a company of unpaid artists, armed with little more than borrowed props and greasepaint, funded mainly by box office receipts and a few small grants, transformed itself into a $12 million-a-year enterprise with real estate and other assets approaching $30 million and counting.

Graph 1 | TOTAL ASSETS 1977-2002
(dollars in thousands)



It is tempting, but usually wrong, to tell such stories in the arts as if they were triumphs solely of talent and vision, viewing a stable business and capital structure as simply the natural rewards of creative genius. In reality, the vision, the business operations, and the capital form something like the walls of a pyramid; if any one moves or grows, the other two must change accordingly, or the whole structure comes apart. In that respect, Steppenwolf's spectacular artistic success is merely one-third of its history as a company. The other two-thirds are the subject of this profile.

Yet consistent artistic excellence, maintained by a stable corps of actors, writers, and directors over the course of three decades, is unquestionably a crucial part of that growth, not just part of the story, but fundamental to everything that follows. For instance, unlike nearly every other successful American acting ensemble, Steppenwolf managed to preserve the loyalty and cohesion of its artistic troupe. Though the core ensemble now has 35 members distributed across multiple time zones (it started with three, and quickly grew to nine, in a small corner of metropolitan Chicago), they have by now been the same 35 people for many years. Most return to the theater regularly for performances, fundraisers, and creative refreshment. The governing artistic committee today consists of the same three actors who, not long out of high school, set out to change American theater, and did.

That continuity is what prevents this from being a kind of wistful then-and-now story. It's more of a now-and-now story, a tale of lives lived in parallel: a business of increasing complexity and sophistication, with physical and financial assets that grew nearly as fast as its international reputation, alongside an ungovernable gang of artists that's still apt to issue obligatory rain coats to front-row audience members. Striking that balance — among sound business operations, productive artistic pandemonium, and a capital structure that fully supports both — has never been simple. Along the way, for at least a few years, it became perilously hard.

Few nonprofit institutions, especially in the arts, are truly "secure." Even fewer are "self-sufficient," if that means supported principally by earned revenue. But the best ones endure with some combination of donations, box office receipts, smart investment, and consistent, first-rate management and governance. But each of those things represents its own separate struggle. Losing any one of them can be the end of the story.

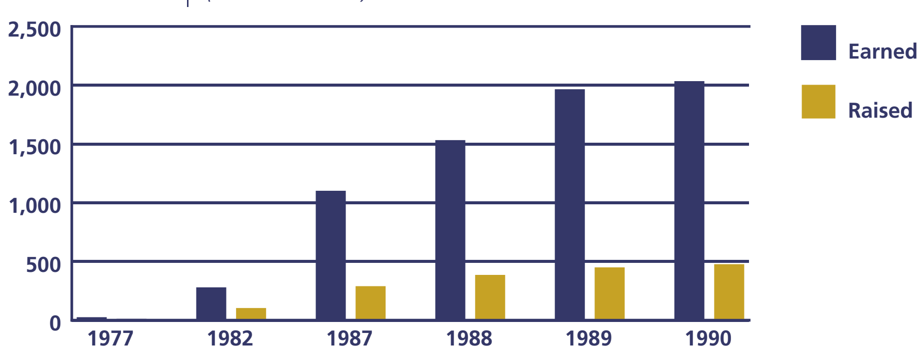
Steppenwolf now seems highly likely to be one of the successes. But that was not always so clear. And for a long time it was not clear at all. In fact, for roughly two decades, as one of the founders put it, "there was never any real agreement about how to run the place, ever." By the time Steppenwolf came up with such an agreement, it would already own a $9 million theater, bring in annual income of more than $5 million, and see its ensemble dispersed across the country and sometimes around the world.

How the principals kept the company together, aligned its assets to its artistic mission, and found a secure, sustainable way to "run the place" is a story that begins, in a sense, the first time the art and the business collided.

1974-1988: 'NOT JUST A BUNCH OF KIDS'

The first time the Steppenwolf board of directors ever said No to an artistic idea, the company was already approaching its eighth birthday. By then Steppenwolf was well on its way to being the hottest phenomenon in American theater in a generation, with a stream of hits in Chicago and a sold-out production in New York, 800 miles from home. (The play, Sam Shepard's *True West,* won two of Off-Broadway's Obie awards that year for its principals, Gary Sinise and John Malkovich.) Through most of those first eight years, the board members' main role — apart from that of parent, neighbor, or fan — had been to keep the lights on, raise or contribute enough to bridge the small gap between ticket receipts and production costs, and provide its ensemble of actors, writers, and directors with whatever resources the board could scrounge up. In its early years, says veteran member Bruce Sagan, "the board consisted of the people who loaned them kitchen chairs."

Graph 2 | COMPONENTS OF TOTAL REVENUE 1977-1990
(dollars in thousands)



The putative chief governing body did hardly any governing. Decision-making about the company's actual work, producing plays and selling tickets, was left almost entirely to the artistic ensemble. The board dutifully found or contributed enough money and matériel to let the ensemble mount four or five productions a year in borrowed or rented space, and to give the actors and directors whatever they needed. Which mostly didn't include advice.

In 1982, the advice came. The actors wanted to mount a production of Bertold Brecht's *Threepenny Opera*, a sprawling affair with music and multiple sets and an army of extras. It was in many ways a perfect script for Steppenwolf: angry, raw, political, overwhelming. There was just one problem with it. There wasn't enough money, even if they sold out 200-plus seats a night. The company actually lost money that year, one of only two such shortfalls over the course of three decades. And board members' generosity could stretch only so far.

It was a cold shower for both the board and the ensemble — an early step in the gradual, sometimes painful transformation of an artistic phenomenon into a cultural institution of international stature. But it proved invigorating in the way cold showers sometimes do. In those early years, Sinise recalls, "we started to look at ourselves as more of a company and not just a bunch of kids in a basement doing plays." Now, with that change in identity under way, if the new company was beginning to bump up against economic limits, then it would be necessary to change the limits.

Steppenwolf had created a rare artistic asset that was only beginning to prove its potential: a distinctive, aggressive theatrical style that was both new and yet broadly accessible and popular. Unlike other upstart theater companies, Steppenwolf's ensemble had held together, gaining some new members without losing old ones, and consolidating a collective approach to theater that diverse audiences understood and seemed to like. Saying No to the troupe's inspirations was hardly the reason why anyone had joined the Steppenwolf board, and imposing an "era of limits" was not what any of them had in mind.

Yet the transformation from ad-hoc troupe to established institution was already disrupting some of the cohesiveness, the sense of common ownership, that had held the creative vision together. "There had been a group approach to everything," says Tim Evans, the company's first (and for several years only) employee. "Everybody did everything from taking the tickets at the window to making the costumes and running the lights to cleaning up afterward." Artistic choices were a group decision; there were no stars; the only obligations were to the audience and to one another. An article some years later in *American Theatre* described the original Steppenwolf as struggling

> to develop an ensemble vision of what acting could and should be, proceeding in a spirit of constant verbal critique. … With

> little to do out in the 'burbs except rehearse, drink beer, and talk about work, Steppenwolf acquired some of the qualities that would characterize its later productions: a wild, risk-taking physicality, a willingness to push ideas and emotions to startling extremes, a fearless confidence in their individual talents and, perhaps most important, a nonhierarchical family feeling. Most major artistic decisions were made collectively, with actors stepping outside to direct, directors moving inside to act, and everyone taking [criticism] from all concerned.[1]

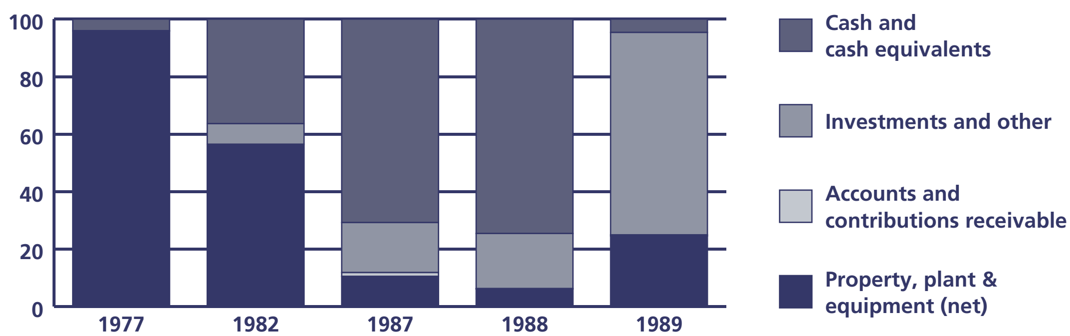
But New York's excitement over Sinise and Malkovich (which soon spread to Hollywood), the blossoming careers of several other ensemble members, and the rising public profile of the company itself all became, as current artistic director Martha Lavey puts it, "potentially life-threatening" to the young ensemble. Sudden stardom, both for the company and for individual members, was jeopardizing the intense esprit de corps that had come from unfettered anonymity and egalitarian, communal self-governance.

It's not just that actors were beginning to be drawn to bigger venues and higher salaries; the company's overhead was rising. The year the board said No to *Threepenny Opera*, Steppenwolf was moving into its third home, by far its largest up to then. True, the space had been imperfectly converted from a dairy company's garage; it had no wings and no fly space. But it had 211 seats — up from 134 at the run-down settlement house auditorium where, two years earlier, ensemble members had wadded up moving blankets to plug holes in the plaster. By year's end, gross earned income would approach $200,000, close to ten times what it had been five years before. Yet even with nearly $20,000 raised or contributed by board members and $79,000 in foundation grants, costs exceeded income by $13,000. That loss surely had at least something to do with moving to a new space. Rent, for example, was now more than $1,300 a month, compared with $25 for Steppenwolf's first venue, the basement of a suburban church. But part of the problem reflects a persistent paradox of nonprofit business expansions: Growth, even when explicitly undertaken to boost revenue, usually increases red ink in the core business — not just in a temporary adjustment period, but for the long term.

To govern an expanded, increasingly prominent operation, the Steppenwolf board was similarly headed for a change in size and identity. No longer relegated to the role of PTA-cum-fan club, the governing body was being enlarged to 20 members and diversified to draw in more of Chicago's downtown leadership. The new members, still not the "deep pockets" typical of more mature institutions, nonetheless included a few more professionals, corporate executives, and foundation officials. The board, like the company and its audience, was beginning to join the Establishment.

For most of those first eight years, Steppenwolf's assets, such as they were, consisted mainly of production equipment and — as success paid off at the box office — more and more cash. By 1988 total assets were $1.4 million, of which three-quarters was cash or cash equivalent. Back in 1977, when the troupe was still performing before borrowed kitchen chairs at Immaculate Conception Church, the total had been barely $8,000, nearly all of it equipment. That had remained the case, more or less, through 1982 — the year the company bank account wasn't big enough for *Threepenny Opera*. Then, with the larger seat capacity of Steppenwolf's new home in the city, cash from retained earnings started to grow.

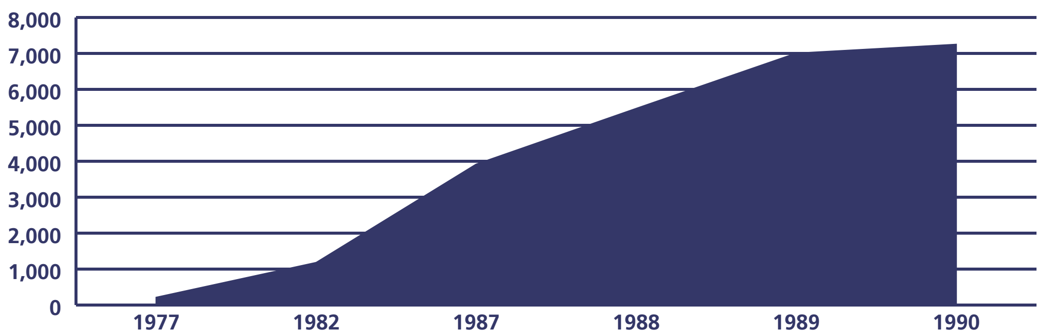
Graph 3 | PERCENT ASSET ALLOCATION 1977-1989



In this early stage, more seats meant more revenue. Getting a bigger house was a sensible choice in Steppenwolf's case, given that its former theater had been selling out consistently, with many shows moving to larger venues to extend their runs. But the effect on the company's net revenue, rather than gross receipts, tells a crucial cautionary story. Hunger for bigger space can be treacherous. Having more seats may or may not mean selling more tickets. Yet it nearly always means higher rents, higher costs of promotion and management, and a more severe penalty for failure. It often means, as it did in this case, greater production costs, including higher wages for production personnel. In this case, these side-effects were all evident but manageable, largely because Steppenwolf moved into its 211-seat theater only after demand for its productions had created waiting lists, extended runs or moved productions, and sufficient public clamor to make the 57-percent growth in house size a reasonable bet. (Reasonable, but still controversial: At least one member left the board after arguing that the move was premature and excessively risky.)

Through the 1970s and '80s, earned income from the box office accounted for 75 to 80 percent of Steppenwolf's total income. The remainder was limited to gifts from board members, proceeds from special fundraising events, and the occasional small grant from a foundation. And for many of the company's formative years, revenue grew faster than normal because some costs were artificially low, thanks to sweat equity from the company's artists, family, and fan-volunteers. Even so, Steppenwolf lived mainly from production to production, from the proceeds of its ingenuity and, to a significant degree, from the unreckoned (and probably unsustainable) value of donated labor. Long-term obligations were almost nil, and leverageable assets were small. As a result, each production amounted to a fresh throw of the dice on the company's future: A hit meant net revenue, an unpopular show meant deficits. In that sense, the quality and popular success of Steppenwolf's artistic vision was its only really durable asset — its one hedge against financial catastrophe. But for that, sooner or later one or more productions would have failed badly enough to produce crippling financial losses or to demoralize the unpaid work force, or both. And the company would be history.

Graph 4 | EARNED REVENUE PER SEAT 1977-1990
(in dollars)



Yet even if that happened, in purely economic terms the stakes were low. Collapse, at that point, would have been mainly a story of artistic loss, not financial catastrophe. The company owned no real estate and had no investors in any traditional sense. It had few employees (one of whom was paid through the federal Comprehensive Employment and Training program, and thus not really dependent on company revenues at all). Its material assets were almost entirely liquid. Even a string of box-office disasters would have meant some unpaid bills and no doubt hard feelings from uncompensated artists and technicians — but not a foreclosure or forfeiture of valuable property.

But instead of disaster, the opposite happened. By 1988, Steppenwolf was earning $5,400 a year from each seat in its rented theater. That number represented nearly 40 percent growth in a single year, and a more than threefold increase over what it had been in 1982, the year the company moved into that space. If Steppenwolf had been a start-up enterprise operating for profit, its shares would have risen substantially in value, and investors would be planning an initial public offering.

The expansion of these years included a steady growth in Steppenwolf's core artistic ensemble. Membership had tripled by 1977, from three to nine, with four more by 1982. The end of this period would bring another increase, this time of ten more — forming a roster that by 1989 included now-established stars like Joan Allen, Laurie Metcalf, John Mahoney, Glenne Headly, and Austin Pendleton. As if obeying some law of thermodynamics, the company kept expanding — artistically, financially, and geographically — to accommodate the combustive growth in Steppenwolf's ambitions, appeal, and sense of the possible.

By the end of this period, in fact, the company would mount a production at least as big and demanding and monumental as *The Threepenny Opera*, but it would be something more besides: a Steppenwolf product through-and-through, conceived, written, and brought to life entirely in the minds of the artistic ensemble, under the direction of ensemble member Frank Galati. Today, drama buffs from Broadway to La Jolla, California, to London's South Bank routinely count Steppenwolf's 1988 production of *The Grapes of Wrath*, adapted from the novel by John Steinbeck, among their signal memories in the theater.

At the time, the production had critics across the country reaching for their thesauruses: In the space of a single paragraph, *Newsweek* called the show "stirring," "sensitive," "elegiac," "dynamic," "an act of cultural and moral reclamation." Among the few equivocal reviews, *New York Times* critic Frank Rich complained not that the company had taken on too grand a challenge, but in effect, just the opposite: that Steinbeck's novel may not have been quite good enough for Steppenwolf. (No matter. *The Grapes of Wrath* went on to win Tony Awards for Best Play and Best Director in 1990.)

Slightly more than half a decade after the board had rejected a play for lack of money, Steppenwolf's achievements and reputation were once again outgrowing its performance space. But this time, the growth would not be incremental, and the stakes would be much higher. The small tensions that had seemed "potentially life-threatening" in 1982 would soon become much more palpably so.

1989-1991: EDIFICE REX

Even as Frank Galati was posing with his Tony Award backstage at the Lunt-Fontanne Theater, Steppenwolf's brilliant ensemble — at that point, still the company's only high-value asset — was beginning to disperse. Artists don't *leave* the Steppenwolf ensemble, strictly speaking. It's something like a knighthood, conferred for life. But they may leave Chicago, and even life on the stage, at least for long periods of time. And some did. By 1990, Joan Allen was becoming better known in film than in live theater, co-starring in, among other things, the 1988 hit movie *Tucker: The Man and His Dream*. Sinise had directed the 1988 film *Miles from Home;* he was now in negotiations with Eileen Steinbeck, the novelist's widow, for the right to direct and star with Malkovich in *Of Mice and Men*. Glenne Headly by then had eight movies to her credit, and had been nominated for an Emmy for the TV miniseries *Lonesome Dove*. Austin Pendleton had been internationally known as an actor and director, both on stage and in film, before arriving at Steppenwolf in 1987, and his career had continued to grow thereafter.

In short, as the company's reputation spread, its actors' reputations were spreading even faster. And as ensemble members spent more and more time in Hollywood, London, New York, and (in Malkovich's case) the south of France, the cozy, communal decision-making structure of Steppenwolf became increasingly untenable.

Meanwhile, the board was undergoing a radical transformation. Gone was the intimate group of theater buffs, relatives, and small-scale patrons, and in its place was a much larger, more corporate body intent on governing a now-legendary national institution. The company had commissioned a study in 1987 of how a board for such an institution should be composed, and it had determined that it needed more top-level business executives and senior professionals. By the end of that year, the board had 29 members, 50 percent more than in 1982, and within five more years it would grow to 42 members. A corporate CEO, relatively new to Chicago and eager to make a mark, was now chair. Corporate sponsorships of individual productions, major business contributions, and a general embrace from the city's top echelons had turned Steppenwolf board membership into a badge of social status. It had become a community asset, and its governance a community trust.

Status, in this case, carried a steep price. Members had to meet explicit quotas for money contributed to the theater and raised from others, tables purchased at special events, and time spent volunteering with the company, as well as attending regular meetings. The fact that people in the top ranks of Chicago society were willing to meet these tests was a tribute to Steppenwolf. But they were not likely to do so for very long without also expecting to govern the theater's business. The old Steppenwolf, in which the board stuck its nose into decision-making only reluctantly, once every seven or eight years, had ceased to exist.

Among the other changes that came with fame and accolades was a growth in net revenue (what a business would call "profit"). The year the lights went up on *The Grapes of Wrath*, cash and investments had totaled an unprecedented $1.25 million. The next year, they were $4.6 million. With some of America's most celebrated actors and directors working in rented space that suffered from major structural deficiencies, with spendable assets soaring, and with many more potential subscribers than there were seats, Steppenwolf's next step was all but inevitable. It wanted a new home, built to its specifications.

"This is a group of very ambitious people," Artistic Director Martha Lavey said recently, referring to the Steppenwolf ensemble. "They are not going to be limited to one theater or even one city. So our theater has to be good enough, including big enough, to keep their loyalty. If they're going to stay members in more than just name, they need to come back to Steppenwolf because it's home, but also because it's satisfying and rewarding."

A near-perfect opportunity presented itself in 1988. A private developer (and theater lover) proposed building the group a brand new performance and office building as part of an imagined theater district in the city's Lincoln Park neighborhood, not far from Steppenwolf's then-current home. It still wouldn't be the company's own building, but that was fine. Steppenwolf wasn't looking to build a real estate portfolio. It mainly wanted three assets that the proposed long-term lease would amply provide: seats, space, and security. Besides more than doubling the audience capacity in the main theater, the new building would add a smaller studio theater, dedicated rehearsal space, and a state-of-the-art stage with "luxuries" like wing and fly space, adequate dressing rooms, and what then seemed like generous provision for props, set construction, a costume shop, and administrative offices.

True, the developer's design ideas were, to use General Manager Claude Binder's word, a bit "ornate" for Steppenwolf's brand of theatrical mayhem. But the price and scale were right, and the opportunity to participate in planning a close-to-ideal space was nearly irresistible. Unfortunately, construction was barely under way a year later when the developer's business began failing and the project halted.

Steppenwolf was just starting a capital campaign whose main purpose had been to provide $2 million for its interior finishes and improvements, and to equip the company for the transition to a bigger operation in bigger space. Suddenly, the purpose of the campaign, and in fact the whole question of the company's future, were thrown wide open. On one hand, the opportunity seemed obvious: The property was now on the market and could be bought at a bargain. Without it, the company would be stuck indefinitely in its old space, with little more than statuettes to show for its meteoric success. And taking ownership of the project meant that the organization would have total control over the building's configuration and design — no more "ornate" prosceniums and chandeliers, but a distinctively Steppenwolf theater that reflected the company's esthetic in every detail.

On the other hand, a $2 million goal for the capital campaign would have to increase to something like $5 million, and the rest of the (low-end) estimated cost of $9 million would have to be borrowed. The company's single biggest asset would then be valued at nine times its annual revenue. In purely financial terms, this wouldn't be just a change in surroundings, but a change in business. Instead of a purely artistic enterprise with most of its assets measured in cash, securities, and genius, Steppenwolf would now be a developer, landowner, and highly leveraged debtor.

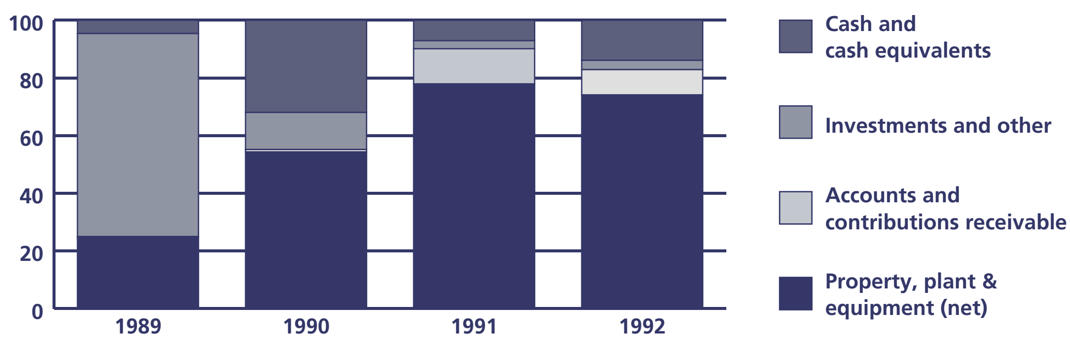
And not a very respectable debtor at that. "We had never raised a penny of capital," recalls board member Bruce Sagan, a businessman and himself a longtime real estate investor. "We were a $3 or $4 million, basically break-even operation. We had a feasibility study for our capital campaign that said we'd be lucky to raise $2 million. We weren't anybody's idea of a prime borrower. So we went after a state bond issue for cultural institutions. But those were revenue bonds, they didn't carry a state guarantee. So we ended up with an outrageously high interest rate, and the rating on the bonds was something like Triple-D." In short, the company was financing its signature theater with a capital campaign that experts considered unrealistic, and a sheaf of state-issued junk bonds.

But from that point, many things went stunningly right for Steppenwolf. The board found yet another development company run by a theater lover to serve as construction manager for a favorable fee. Relying on Sagan's real estate expertise, they served as their own general contractor (a hugely risky practice that, more often than not, turns into disaster). The work was bid out at the start of the 1990 recession, when prices were near their lowest. And the whole thing came in on schedule and on budget. The capital campaign — headlined by a brand new Tony award — unearthed support in all sorts of untested and unsuspected places. One fairly typical example: A cold call on a famously cautious Midwestern foundation — a call preceded by little more than a boilerplate proposal — netted a prompt challenge grant of $350,000.

Barely 12 months later, in mid-1991, the result was a house that remains, even after a dozen years, one of the most desirable performing spaces in Chicago. More to the point, it is Steppenwolf through and through. The walls are rough cement. The ceiling (where the ornamental coffers and chandeliers would have been) is a web of catwalks, wiring, and lighting grids that gives off a Brechtian feeling of naked infrastructure. Yet the acoustics and sight lines are flawless. The apron of the stage juts out some 15 feet into the audience, putting the actors precisely where Steppenwolf normally prefers to be: almost literally in the audience's lap. From the tip of the apron to the back of the house is a mere 40 feet, giving even the last row a feeling of being practically part of the set. A few floors up, a black-box studio theater accommodates up to 250 people with its own box office and lobby area. At the time the theater was built, the same floor provided comfortably for administrative offices next to the studio lobby. Other floors offered scene and costume shops, a recording studio, and storage space.

Yet beneath the euphoria of a tailor-made facility lurked a deeper realization. A new building with two or three times the seating capacity doesn't just mean doubling or tripling the company's ticket revenue. To some extent, it also means changing the production style, the sound system, the development department, the box office, the relationship with other people who will want to use the space. It means paying — in perpetuity — for hard assets that must be constantly made to generate revenue. In effect, a company whose main product had been art is now also formally in the business of managing real estate — hungry seats and square feet that depreciate, need repairs, insist on being heated and cooled and cleaned, whether they are empty or full. Even when everything goes right, when no one needs to lose a night's sleep over unpaid utility bills or neglected repairs, this shift in obligations normally has a subtle and pervasive effect on an organization's psychology, and by extension, on the way it operates.

Graph 5 | PERCENT ASSET ALLOCATION 1989-1992



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As negotiations to buy the property were drawing to a close, Sagan summed up the situation in a wake-up call to the ensemble. “This,” he told the artists, “is going to change things.”

1992-1995: THE OLD COMPANY GIVES BIRTH TO THE NEW

The week that John N. Fox, vice chairman of Deloitte Consulting Group, joined the Steppenwolf board in 1993, he took a major client to the production then running on the theater’s main stage, a controversial play by Arthur Kopit called *The Road to Nirvana.* “There was nudity in the opening scene,” he recalls, “and the first 20 words started with F. At intermission, we didn’t say very much. I think he was stunned.” The client was just experiencing a typical night at Steppenwolf. Fox, on the other hand, had a bigger and more unpleasant surprise in store for him.

“Here we were several weeks into the new season,” he remembers, “and the first play was on stage and the second play had been chosen. But that was it. There was nothing after that. We were selling subscriptions based on possibilities.” Fox soon learned that this was nothing new. As the company approached its 20th anniversary, with at least a third of its ensemble scattered all over the world, artistic decisions were still being made in much the same way as in the basement of Immaculate Conception Church in 1979. There was now, to be sure, a paid staff under full-time artistic and executive directors. But according to Martha Lavey, an actress who in 1993 was a new member of the ensemble, such basics as the composition of the season and the choice of key artistic personnel “were still essentially a group decision.”

The Steppenwolf season had come to be regarded as an artistic and social bellwether, a running dramatic commentary on the times. By keeping their artistic options open, “we could respond to world events, jump on a new work or a rethink old work based on what was happening in the world, in our lives, in the theater. The idea of making commitments [to particular plays] far in advance was disabling to many ensemble members.”

So was the idea of artistic authority. Even when Steppenwolf eminences like Gary Sinise or Jeff Perry had held the post of artistic director, their style was deliberately consultative. Their leadership had more to do with persuasion and personal stature than with any formal power conferred by their title. But they had been *founders*, a status that at least carried a certain mystique, even among longtime members of the ensemble. Later artistic directors enjoyed less personal authority, and thus had to rely even more on consensus.

Curious as this process may sound, it's important to remember that this is the process that created the Steppenwolf phenomenon. In another company, it might seem quaint at best, chaotic at worst. Most prominent theater companies are an expression of a strong artistic director whose vision guides the creative work; actors and directors come and go with every production. In those cases, accountability is clear and final, but everything depends on getting the right artistic leader. At Steppenwolf, by contrast, the ensemble *is* the company; it was the uncanny cohesiveness of their work together that had made that work remarkable. Their desire to share artistic decisions wasn't just a tribal custom, it was a proven technique. Trouble is, it was originally proven when the company had no debt, no real estate, almost no fixed costs, expenses overwhelmingly covered by ticket receipts, a close-knit corps of like-minded artists living in close proximity, and at most a couple of hundred seats to fill. By the time John Fox asked what the third play was going to be and got no answer, all of that had changed radically, just as Sagan had warned.

Steppenwolf's prestige was such that few critics seemed to notice something else that was beginning to alarm members of the company: the repertoire seemed not quite as strong as it had been in years past. There were certainly remarkable productions in these years: a 1991 *Curse of the Starving Class,* for example, that was vintage, raw Steppenwolf; *The Song of Jacob Zulu* in 1993, the company's first musical (with music by Ladysmith Black Mambazo); or the American premier of *The Rise and Fall of Little Voice* the following year. All three productions traveled elsewhere, including New York. But the seasons were uneven, and the difficulties of consultation and planning were leading to haphazard decisions and rising anxiety among members of the board — whose opinion now truly mattered, in a way that many ensemble members had simply never come to recognize.

The board, then chaired by Larry Brady, executive vice-president of Chicago-based FMC Corporation, and the original ensemble members began grappling with the problem at about the same time. John Fox arranged for his colleagues at Deloitte to undertake a strategic plan for the company, and the board accepted an offer from founders Sinise, Perry, and Terry Kinney to form an executive artistic board to centralize and streamline the artistic decision-making process. Understandably, the power-shift didn't sit well with the artistic director at the time, ensemble member Randall Arney, who left the job (but not the ensemble) soon thereafter. In fact, it wasn't warmly received by several others in the ensemble either, given that it forced them to confront the unraveling of their communal life, even though that unraveling had been in progress for close to a decade.

Nonetheless, the board had swiftly concluded that fundamental change in the way the company was managed would be unavoidable. The Deloitte strategic plan painted a stark picture. Although season subscriptions to Steppenwolf had been climbing for years, the rate of increase had been slowing since the new theater opened, and in the most recent complete year, the 1993-94 season, the company had lost a significant number of subscribers. Single-ticket sales were stronger, though even they had dipped in the 1992-93 season.

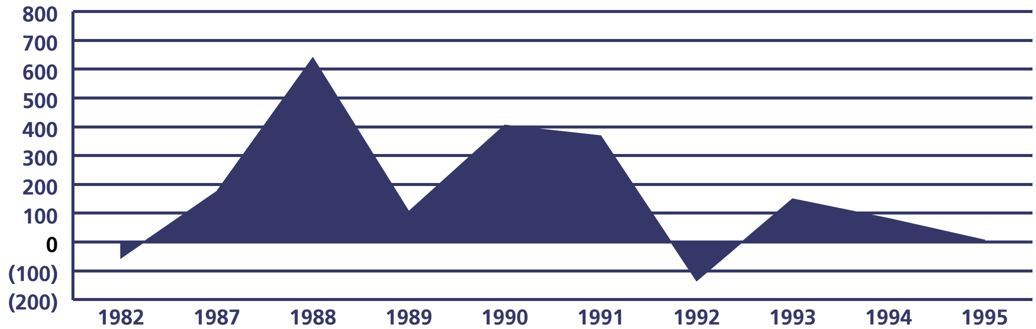
Overall, the trend was worrisome: Subscriptions provide predictability for a season's budget, and they represent the audience's overall vote of confidence in the company, as opposed to its individual shows. A shrinking subscriber base and single-ticket volatility were hardly a good sign on either score. Worse still, Deloitte's sample of six other, "peer" theaters showed less volatility and, in the most recent year, much stronger subscription sales than at Steppenwolf. For a company long accustomed to outperforming its industry, this was deflating news.

"While the costs of Steppenwolf's 'infrastructure' have nearly tripled," Deloitte wrote, "the theater's dependence on single ticket revenue appears to be increasing and is much higher than its peer group of theaters. … Subscription sales have decreased as a percentage of total production revenue from 67 percent in Fiscal Year 1990 to 55 percent in FY 1994."

Most of all, the consultants wrote, Steppenwolf needed to pay more of its fixed costs with predictable revenue, especially subscriptions. But even under the best of circumstances, subscriptions will eventually hit a ceiling.[2] There are only so many seats to sell. So for the long term, "predictable revenue" would need to include proceeds from an endowment and recurring contributions from a larger and more diverse base of contributors. As matters stood, the costs of things like building and staff were steady or rising, and the means to pay them were fluctuating dangerously. Net operating income had been on the decline since the new building opened (the company even suffered a loss in 1992, the only time it has done so in its current home), and by the time the plan was written, total net income for the year was barely $6,000.

As often happens, adding new real estate, more seats, more performance space, better production possibilities — all the promise of a big, new theater — had not been translated into more money. There had been benefits, certainly. But the benefits had not been financial; in fact, they had made the financial problems more urgent.

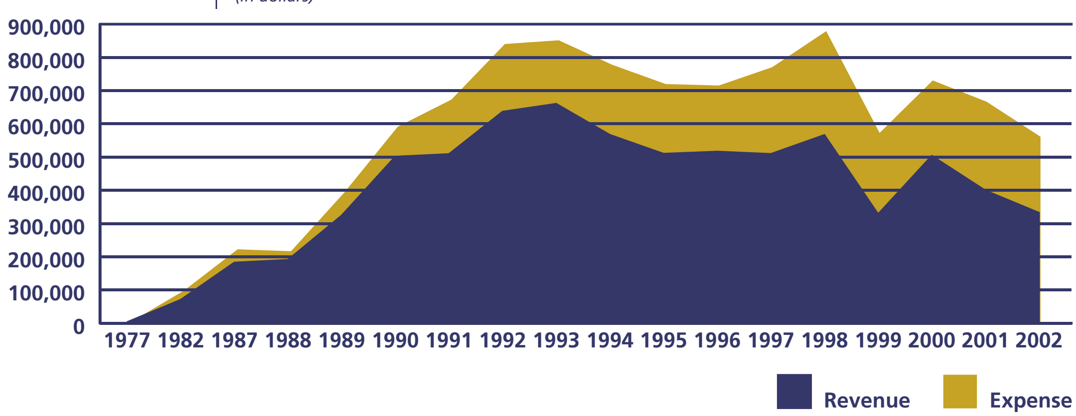
Graph 6 | NET OPERATING INCOME (LOSS) PER SEAT 1982-1995
(in dollars)



Yet ironically, the plan envisioned only one sure way out of these problems: spending even more money, assembling an even larger staff to work on neglected artistic functions, fundraising, audience development, and other administrative duties. To make their point, the Deloitte consultants compared Steppenwolf with two comparably well-known New York companies: Manhattan Theater Club, with a "significantly larger" staff than Steppenwolf's, and Circle Repertory Theater, "a model similar to Steppenwolf's current approach." Manhattan Theater Club was prospering and continues to do so; Circle Rep was in deep financial trouble at the time the Deloitte report was written, and a year later it was defunct.

One telling pattern in Steppenwolf's finances is represented by earned revenue and expenses per artistic staff — the amount of money generated for each employee reporting to the artistic director, and the company's total expenditures per each of those positions.

Graph 7 | EARNED REVENUE AND EXPENSE PER ARTISTIC STAFF 1977-2002
(in dollars)



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Since the artistic staff is one way to measure the company's creative "core business" — something that would be the same whether they owned a building or not — it is a good basis for gauging the way other business, like real estate, affects income and expenses. (The denominator, in this case, doesn't include the members of the ensemble or other artists working on productions, just the year-round artistic employees.)

Between 1988 and 1993, revenue per artistic staff member grew steadily, and roughly equaled the corresponding amount of expenses. That's consistent with a company that has a good fit with its audience, and whose only real business is producing art. But beginning with the new theater, expenses per artistic staff almost immediately rose some 20 percent above the corresponding amount of revenue, a gap that increased further as revenues declined in the early '90s, and that has continued to the present.

At heart, that gap is not necessarily a sign of trouble, but it is a sign of change. It would be familiar to almost any nonprofit that has grown from a start-up operation into an established institution. In this case, it is simply the added cost of owning and working in a bigger theater. It can't be managed away, and it can't be completely eliminated by raising ticket prices, selling more seats, or even both. Part of it, at least, represents a structural deficit inherent in running a nonprofit theater, and thus has to be covered with increased contributions. But that, in turn, demands an investment in development staff to solicit and maintain those contributions.

Nor was it just business operations that needed to scale up to meet the company's escalating size and complexity. Following the advice of the new artistic board and the consultants, the size of the artistic staff would also be rising — by one person in 1995, another in '96, and five or six more a few years later. The management change at Steppenwolf, in short, was not just incremental but one of fundamental identity. It wasn't just that the fabled ensemble would no longer be deciding the company's next moves over post-rehearsal pizza and beer, as it had done in the 1970s and early '80s. Those days were all but forgotten. Henceforth, the company would be run by a staff larger and far more diverse and specialized than the ensemble had ever been. What had been a company *of* artists would now become a company *for* artists.

To be sure, its leadership would be creative to the core. The new artistic director would be ensemble member Martha Lavey, who continues to perform in Steppenwolf productions. Even the new executive director — a management position sometimes filled by MBAs with few creative credentials — would be Michael Gennaro, a former actor, son of a legendary Broadway choreographer, and a veteran manager of performing arts institutions. But the company's structure would change profoundly and quickly.

Soon, the modest offices next to the studio theater would be completely inadequate for the growing staff. The total number of regular employees (not counting those hired for individual productions) would rise to 82, up from 46 in 1994. Unearned revenue, mainly from contributions, would climb steadily, from 30 percent in 1995 to almost 50 percent by the end of the decade. The development department, which had mostly concentrated on special events like gala evenings with ensemble celebrities, would now be a multifaceted, fully professionalized program with individual strategies for corporate donors and sponsors, foundations, government agencies, civic groups and leaders, small contributors, and wealthy patrons. The department's staff would grow from three people in 1995 to 13 by the end of the decade.

"As the group approaches its 20th season," the *Chicago Tribune* reported in May 1995, "as its founding members near their own midlife years, Steppenwolf is caught up in a tumultuous identity crisis." The story quoted founder Terry Kinney as conceding that "there was never any real agreement about how to run the place, ever. The only agreement really, took place on stage, a kind of magical charge between us as actors."

Within a few weeks, the identity crisis (or the worst of it, at any rate) would be over. The board would reach, once and for all, an "agreement about how to run the place." Now, the challenge would be to build a corporate structure around that agreement, without losing the "magical charge" that made it Steppenwolf.

1996-2002: BEYOND THE LEGEND

Just outside the lobby of Steppenwolf's main stage, the walls carry a striking series of black-and-white portraits instantly recognizable as the Steppenwolf ensemble. All are by the same artist, Chicagoan Victor Skrebneski, whose international reputation as a glamour and portrait photographer includes a specialty in portraying middle-aged subjects. The portraits, like their hushed, carpeted surroundings, seem to certify that Steppenwolf, while perhaps more glamorous than ever, is no longer young.

The portraits hang near an elevator that once would have taken you up to the company's administrative offices. But no more. Those are now down the block, in Yondorf Hall, a well-preserved 1887 landmark of which Steppenwolf bought the top three floors in 1998. The lower two floors have been owned and occupied by a bank, but it is about to move out as this is written. Steppenwolf will then own the entire building by mid-2003, and may use or lease out the space, depending on the market. The decision will have almost nothing to do with art. Yes, Steppenwolf could use some more space, both for artistic purposes and for offices. But the decision about this particular space — desirable first-floor commercial frontage in an increasingly upscale neighborhood — will be purely a business decision, depending on the potential rent, the cost of alternative facilities elsewhere, and the effect of any given tenant on the rest of the neighborhood, including Steppenwolf's other real estate investments.

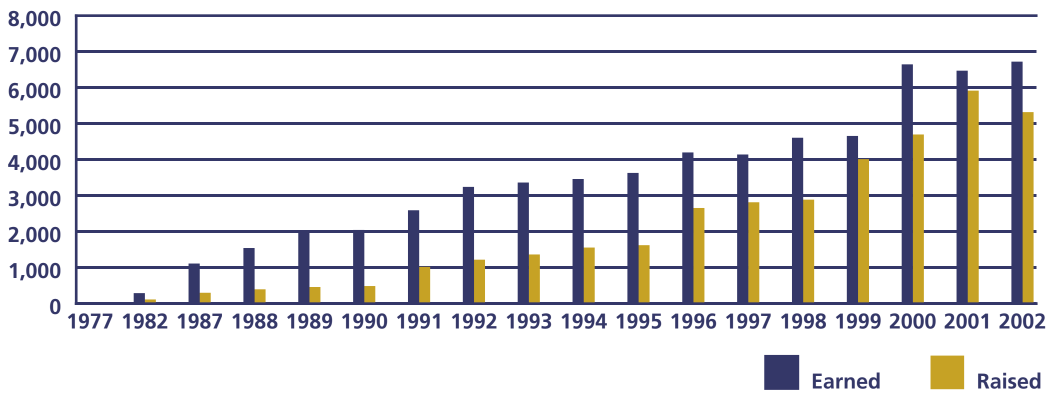
Yondorf Hall is just the latest in a series of real-estate expansions. The scene shop is no longer in the main building, for example. The modest workspace there soon proved inadequate for the more elaborate scenery and special effects typical of Steppenwolf's more recent years, so in 1994 the company purchased 67,000 square feet for a shop several miles away. In 1996 it bought the garage adjoining the theater, both as a source of parking revenue and (more important, at least to the artists) as another "black-box" venue in the garage's enclosed first floor.

The Steppenwolf Garage Theater is, in effect, a re-creation of the company's church-basement origins: a flexible, unimposing 100-seat space for new plays, new directors, and productions in development. "A lot of people on the ensemble really want to hold onto that part of their roots," says General Manager Claude Binder. The rough space, with its $12 seats on makeshift risers, separated from the garage's lobby only by curtains and partitions, "puts us back where Steppenwolf always wants to be: in a position to try new scripts, get to know new actors and directors, and challenge the smaller audiences that really like breaking new ground, and don't expect a lot of creature comforts."

The sea change that started in 1995 becomes obvious in a scan of Steppenwolf's total assets over the years. That total jumped 360 percent in a single year, between 1988 and '89, in the lead-up to construction and acquisition of the new theater. As capital contributions came in, and then when the building was purchased, total assets went up another 83 percent by 1991. But then they leveled off, remaining essentially unchanged at just over $11.5 million for the next four years. With the implementation of the new business plan, growth began again in 1996 at a gradually accelerating rate, not just in the acquisition of new real estate but in other investments as well, especially a mounting endowment.

The growth in fundraising paralleled that in real estate. In 1996, in the first year under the new administrative structure, contributions jumped almost $1 million, and grew to nearly 40 percent of total income, up from roughly 30 percent the year before.

Graph 8 | COMPONENTS OF TOTAL REVENUE 1977-2002
(dollars in thousands)



Among the expansions in fundraising begun in '95 has been greater pursuit of large individual gifts, beginning with a "Director's Circle" for contributors of $1,500 or more, and adding three more levels of recognition for individual contributors soon thereafter. By 1999, the year before Steppenwolf launched a major endowment campaign, contributions had grown by 80 percent. The start of the endowment drive led to another spike, producing a further 40 percent increase in a single year, and smaller double-digit increases every year thereafter.

When Development Director Sandy Karuschak joined Steppenwolf in 1999, she recalls, "we had about a $1 million endowment. But most of that was very recent; we weren't drawing on it. We didn't even fully understand how to manage and invest it. We had to create a distribution and payout policy, and even then, the [annual] proceeds didn't make a big difference in the budget." That has begun to change, especially after Steppenwolf launched an $11 million endowment campaign in 2000, alongside a campaign to increase the annual fund by $10 million within three years. Twenty-four months later, the company was ahead of schedule on both fronts: The endowment campaign had raised $8.3 million, or about three-quarters of the goal, and the annual fund campaign had reached $8.7 million.

Part of the increased endowment came from a $1.75 million challenge grant from the Ford Foundation, requiring a two-to-one match ($3.5 million) from individual contributors. That goal was met by October 2002, just 22 months into the campaign. More than half the endowment contributions have been the work of the board alone — combining individual gifts and corporate contributions from their various companies.

With that deepening financial commitment among board members has come an increase in workload as well. By the end of the decade, says John Fox, who took over as board chair in 2000, "we had become a $10 million organization with plays on three stages. With that scale of operation and a board of 58 seats, the kind of involvement that is the essence of this theater has to be done through more active committees. You simply couldn't have all this work done by all these people in full-board meetings. So we went from eight board meetings a year down to four, but with more frequent committee meetings and more committees. The executive committee meets monthly, the finance committee meets six to eight times a year. There's more work, but it's more focused, with much more opportunity for involvement." When recruiting new board members for Steppenwolf, he says, "we distinguish this board from others by saying, 'You're going to work. You're going to work hard.'"

The transformation of 1995 has affected the artistic program nearly as much as it has altered the company's governance and finances. One obvious change: Every season is now fully committed by the time subscribers send in their checks. Plays are almost never "to be announced." The combination of more streamlined decision-making and the clear authority resting in the artistic director and the Executive Artistic Board has made it possible for Steppenwolf to open many more new lines of artistic activity — the sorts of things that, in years past, the ensemble might have deliberated and negotiated over for months or years, without ever being able to enact. A "New Plays Lab," for instance, began almost immediately with the establishment of the new management structure in 1995, resulting in four or five new plays in workshop, several of them moving on to productions in the studio or garage, or occasionally on the main stage. "It is the only Chicago series," wrote the Chicago Sun-Times in 1988, "that consistently places the resources of a major institution behind new work by younger artists."

A separate series, called Traffic, began the following year, presenting other artists and often other forms of performance besides theater, in one-night-only performances. Traffic performers have ranged from a dance/jazz "summit" to readings by novelist Frank McCourt accompanied by fiddler Liz Carroll, to a concert by the World Saxophone Quartet. National Public Radio began broadcasting the Traffic series in 1997.

The year after that, the company opened the School at Steppenwolf, institutionalizing a teaching tradition that dates to the ensemble's earliest years. Alongside their day jobs, early Steppenwolf actors used to teach master classes at local colleges and universities, or sometimes in the theater's own space, to supplement their incomes. Now, the School at Steppenwolf offers summer-long artistic residencies in which, as a promotional publication puts it, "professional actors … immerse themselves in the ensemble traditions, values, and methods that have made Steppenwolf unique."

Along the way, the company has increasingly become an incubator for younger Chicago theater groups. Besides inviting other local companies into the garage and studio theaters, Steppenwolf periodically collaborates with newer local ensembles on a main stage production. In the 2003 season, for example, Steppenwolf teamed up with Congo Square Theatre Company, a three-year-old African-American troupe, on a revival of Alice Childress' 1962 play *Wedding Band,* about race relations in South Carolina during World War I. It was a risky undertaking — a disturbing plot set in a nearly forgotten era, written in the full heat of the Civil Rights movement — and ticket sales were respectable, but far from the year's best. "This is exactly the kind of project," says Executive Director Michael Gennaro, "that the presence of an endowment and a strong annual fundraising campaign make possible. You can take a little more risk, and you can plan more responsibly for the risks you take, when you know there's a financial backstop there."

The explosion of new activity has been a monumental challenge of organization, administration, and sophisticated management, all while still preserving the semi-chaotic exuberance that defines Steppenwolf's artistic style. "It's an amazing dance, all of that," Artistic Director Martha Lavey wrote in a 25th anniversary report in 2000. "Keeping hold of the vision that originated the company; nurturing the bonds that allowed it to come into being; and, at the same time, opening one's hand to the new, welcoming change, risking the known quantity for the adventure of what's next."

LESSONS AND CONCLUSIONS

Steppenwolf's history is by now long and rich enough to provide a moral for any of a dozen legends. Critics will someday have much to say, no doubt, about Steppenwolf's peculiarly physical aesthetic, and about why so many of its actors have nonetheless succeeded in the two-dimensional world of film and television. Such questions are beyond the scope of this discussion, but they constitute, as we suggested earlier, one-third of what makes the tale of Steppenwolf's rise a subject of national fascination.

The lessons in this section relate to the other two-thirds of the story: the way in which a gifted ensemble with an important artistic vision converted its lean-to business into a financial high-rise, and traded an ad-hoc self-governance for efficient, diversified management. These issues are, of course, related to the company's artistic strength. But there is much more to them besides. The lessons seem to fit into three broad categories.

1. The Forces of Entropy Demand a Carefully Balanced Defense

As Steppenwolf grew, its health was maintained against a barrage of natural economic forces, and therefore with great effort. Keeping the organization intact, and periodically widening its horizons, meant developing all three sides of the pyramid in relative balance: the artistic mission; the organizational capacity in the form of staff, skills, and investment in business operations; and the capital base, principally real estate, cash, investments, and equipment. This balancing-act, though it proved crucial, was partly unconscious through most of the company's history. It became obvious only when the massive responsibilities of a new building made it clear that the old balance was untenable.

The reasons why such a balance are crucial is best illustrated by the dynamics that underlay the desire for a new building in the first place. The company was a phenomenal artistic success. Audience demand was filling its coffers with spendable money — which couldn't easily be spent in a small theater with inadequate production facilities. There was little room for growth, neither literally (in the confines of their old house) nor figuratively (in their ability to mount productions worthy of their growing audience and increasingly eminent ensemble). Its growing fame was opening fundraising possibilities it had barely explored. In short, the company needed not just more seats or more fly space. It needed a *plan* — for managing more and more assets, for meeting ever-higher public expectations, for capitalizing on its comparative advantages, and for satisfying the mounting ambitions of a now-seasoned group of artists.

All of these are natural challenges that affect start-up businesses in much the same way they do maturing arts organizations. All successful organizations, whether for profit or not, battle some of the same sources of disarray with essentially the same tools: entrepreneurial management, efficiently organized personnel, and the right amount of capital invested in essential elements of production. The difference is that people normally start businesses with the goal of earning a profit, and their financial performance is always in their minds as a signal of how they're doing. People start arts organizations, as Steppenwolf did, more often with the expectation of creating, performing, and excelling — not hiring accountants, coordinating capital campaigns, and writing business plans. Their sensors are more attuned to audience and critical reaction than to alternative possibilities for return on investment.

Luckily for Steppenwolf, the board did recognize the economic and management issues, and by the time the needs became acute, the board had the right mix of members to diagnose the problem. The process of assembling an able board was a longstanding, deliberate decision, and a smart one. It had been progressing for some time, over the course of a decade and two previous buildings. It was partly coincidental that John Fox, whose consulting firm was expert in business planning, joined the board in 1993 just in time to see the threads of the business operation starting to strain at the seams.

Also coincidental, perhaps, was the founders' growing concern about the direction and quality of the artistic product at that same moment. By some standards, their continued stake in the company's success might by now have seemed close to zero. All of them were long since established artists in their own right, and the fate of Steppenwolf would affect their future careers only marginally, if at all. But the fact that they created the company to be something more than a showcase for individual talents meant that, even from the remote vantage points of Hollywood and Broadway, they retained an interest, and a sense of responsibility, for its continued excellence. It was Steppenwolf's double good fortune that the founders' artistic commitment had not waned, and that their interest piqued at the same moment as the board's concern about the company's business problems.

Yet at least to a degree, the confluence of these forces were not mere chance: The company was feeling the hard tug of entropy — expressed on all sides of its operation, by public disappointment and audience disaffection, as well as by incipient financial losses. Its strength was that it responded not only with alarm, but with a search for a business plan.

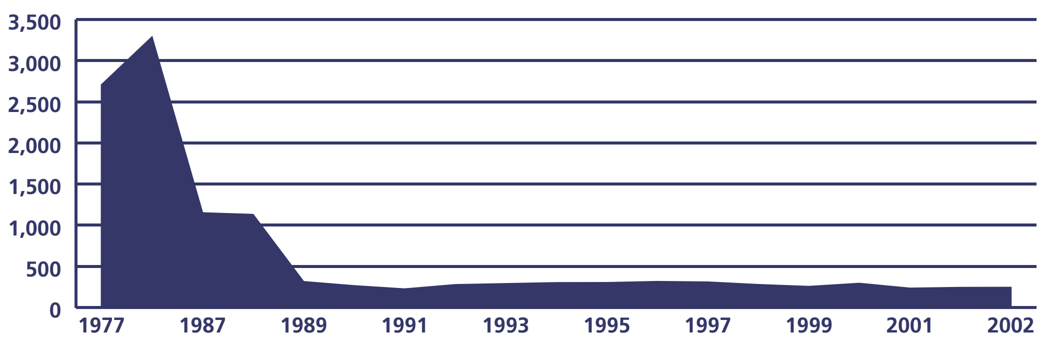
Steppenwolf learned the hard way that a building is not a plan. A building does, however, make the lack of a plan much more urgent. Hence, the second lesson about management and capitalization that emerges from this story:

2. Real Estate is a Cruel Mistress

With the new building in 1990-91, Steppenwolf increased its square footage by a factor of seven, but its seats by a factor of three. That was a sensible move, taken for all the right reasons, but it provoked a change in the company's identity, not just its surroundings. It made Steppenwolf into a landlord and a significantly greater fundraising operation than it had ever been. Yes, the new space instantly provided room to grow: more space for operations, opportunities for more sophisticated production, room for storage and back-office expansion, and it even provided, to a small degree, a leverageable asset — facilities that could be rented out for revenue, or could accommodate money-making activity like fundraisers that otherwise would have demanded rented space elsewhere.

But just as the growth in space exceeded the growth in seating capacity, the cost of managing and maintaining the building exceeded any boost it would provide in income. And it has stayed that way.

Graph 9 | EARNED REVENUE DIVIDED BY TOTAL ASSETS 1977-2002
(in dollars)



Graph 9 shows what a for-profit business would call "return on assets," earned revenue divided by the total asset base, which plummeted with the acquisition of the new building and never recovered. The heightened levels of subsidy that the new building demanded were not a "glitch," some temporary problem to be endured while the company found new and better ways to maximize its return on the real estate. The increased costs, and the distance between those costs and all potential earned revenue, came with the bricks, and it has likewise been cemented permanently into place. For all its box-office success, Steppenwolf became house poor, in a sense.

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Real estate and its operation are, above all else, a mass of fixed costs. Moreover, the production expenses required for mounting a show and filling the house in a bigger venue are fixed as well. But the unpredictability of ticket revenue — and to a lesser but still important extent, the variability of production expenses — makes high fixed costs dangerous and confining. That's especially true for a company like Steppenwolf, whose reputation is based on the presentation of challenging work that will sometimes flop.

It's worth repeating: The structural deficits inherent in real estate for a nonprofit theater are not a sign of failure; they are just a normally inescapable fact. Failure would have consisted of not recognizing the problem and thus not planning to deal with it. Another kind of failure would have consisted of taking the problem *too* seriously: dealing with the real estate by compromising the artistic vision, concentrating on leasing revenues, mounting less risky productions, or otherwise treating the return on real estate as the company's main line of business. Steppenwolf wasn't tempted by the second risk, but it did set off in the first direction briefly. And it soon got a shock. To the company's credit, it responded to the shock swiftly and wisely, and as a result has been able to expand its real estate holdings even further, with the ability to manage the resulting costs, maximize the revenues, and subsidize the difference.

Steppenwolf's sound performance as a landlord has had spillover benefits to the neighborhood and the city — and thus has more than deserved the subsidies it has attracted. When the company arrived at 1650 North Halsted, three blocks from the once-notorious Cabrini-Green public housing project, there were empty storefronts on all sides, and people sleeping or passed out nightly at its doorstep. Today, the theater is part of a remarkable revival in what is now a highly desirable neighborhood. That clearly isn't thanks to Steppenwolf alone, but the prestigious theater and the big crowds it draws have helped to transform the area's reputation and street life, and thus to encourage restaurants, shops, and upwardly mobile residents. (A major redesign of Cabrini-Green has played a part in this too, as have other public improvements to the district.)

The point isn't that the theater saved the neighborhood, it's that the theater was a smart use of real estate and other assets all around. What it was *not* was a profitable business decision, in conventional terms — nor did it need to be. As Steppenwolf gradually came to realize, the new building was the start of a more ambitious, costly, demanding enterprise that would have to justify — and in the end, did justify — the considerable increase in donations that it would require.

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It is far from obvious, to most people's eyes, that a big new theater with lots more seats is not, in fact, a step towards financial self-sufficiency. It is in fact most often the opposite: a permanent cause for depending (to borrow an American theatrical cliché) on the kindness of strangers.[3] If self-sufficiency had been the goal, Steppenwolf was much closer to achieving it in the 1970s than it has ever been since: Nearly all of its costs in those years were covered through earned income from normal operations. Yet the Bohemian life of the 1970s, however financially tidy, was unsustainable. Thus the third and last of the lessons flowing from the Steppenwolf story:

3. Self-Sufficiency, Sustainability, and Success Pull in Different Directions

We saw earlier (in Graph 7, on page 16) that in the years before Steppenwolf moved into its own building, from the 1970s until 1989, the company's costs could be (and were) paid almost entirely by the fruits of artistic effort. With the new decade and the new building, the revenue-per-artistic-staff continued to rise, but the costs rose faster. The company suddenly needed to raise a fairly substantial subsidy per artist to cover the increased costs. At this point, the business was no longer art alone, but art and real estate, with a seemingly permanent excess of costs over revenues, demanding permanent subsidies.

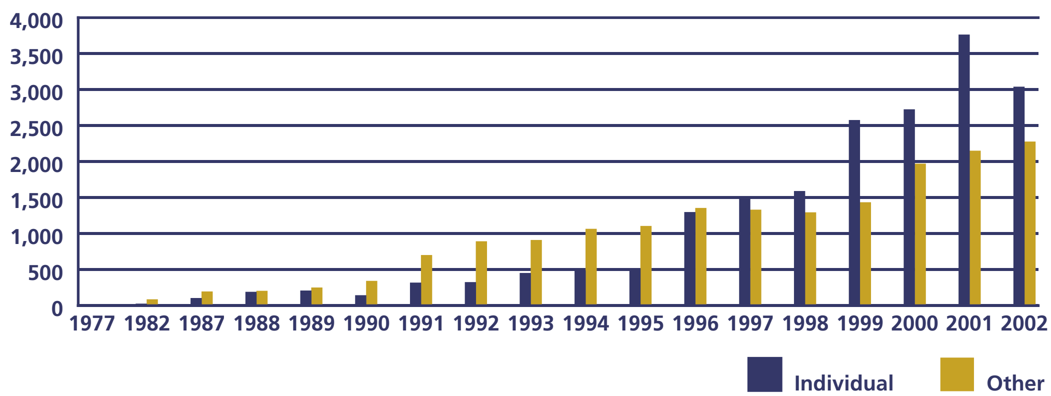
Farewell, self-sufficiency. But don't blame the building alone. What the graph doesn't show is the extent of the non-monetary costs of the company's earlier life. From the borrowed kitchen chairs to the volunteer staff to the actors running the box-office to the smaller theaters' lower-wage union contracts — all these things were economical, but for Steppenwolf, as for most enterprises, they were not sustainable. The company, as it grew, didn't merely need a bigger building, it needed a bigger, richer operation. And its artists and supporters needed sustainable *lives*, which could not involve uncompensated 15-hour work days forever. The building was merely the physical expression of that more fundamental fact: Steppenwolf's level of ambition and success now demanded expenditures that a nonprofit box office (indeed, almost any box office) would never be able to cover.

A company with smaller ambitions might have cycled through its artists and volunteers, replacing them as they burned out or moved up, and mounting hand-to-mouth productions year after year — even, perhaps, very good ones that would enrich the local theater scene. It could, in short, have been nearly self-sufficient. But it would not do, at least for very long, what Steppenwolf had always intended to do:

remain a coherent ensemble that stood for something important and permanent, presenting its work all across the American theatrical landscape.

As Steppenwolf has shown, approaching its 30th anniversary, that vision is in fact highly sustainable. But not with earned revenue alone, or even primarily. Contrary to popular myth, boosting earned revenues increased the company's economic challenges, it didn't reduce them. Physical and financial growth was essential to artistic success, but it didn't contribute to an easier life. What has made Steppenwolf sustainable — a prospect achieved only in the last six or seven years — has been a deep investment in development, a diversified and labor-intensive appeal not just to corporations, big foundations, and government, but to smaller donors, particularly individuals. In the process, contributions are now approaching half of all revenue.

Graph 10 | COMPONENTS OF RAISED INCOME 1977-2002
(dollars in thousands)



Graph 10, comparing individual contributions with those from other sources, demonstrates the importance of individuals in these overall numbers.

What makes the solo donors significant is not just that they had previously been an underused resource. It's also that their greater numbers make them a valuable source of stability. Reliance on a handful of big grants from major institutions and the federal or state arts funds can be a comparatively inexpensive way of raising money. But a change of government policy or adverse decisions in a few board rooms can wipe out big percentages of that revenue in a year. Individuals, by contrast, are less likely to make their decisions, positive or negative, all at once. Some will continue, others will come and go, and if the total number is great enough, the aggregate effect can be relatively consistent over time. In the process, individual contributors are likely to help fill seats, both in the theater and at fundraising events, by spreading the company's message among other potential subscribers and patrons. Because they tend to move in wide and influential circles, prominent and wealthy donors contribute far more to a company's "buzz" than their numbers alone would suggest.

The percentage cost of raising four-figure gifts from 200 individuals is, of course, higher than raising six-figure sums from a dozen institutions. It's significant that Steppenwolf Executive Director Michael Gennaro added not just one or two, but roughly a dozen staff positions to the company's development department in the years following the 1995 strategic plan. It was the company's biggest single investment in a non-artistic function. The costs of that kind of investment obviously need to be managed carefully, like all the other balancing acts described in this story. So does the maintenance cost of an endowment — also a source of comparative stability and predictability, but a very high-maintenance asset whose annual yield in spendable dollars is usually much less than one would expect.

But the point is not, in the long run, highly negotiable. For organizations like Steppenwolf that expect to grow in size, prominence, and artistic innovation, subsidy is all but indispensable, and the more diverse the sources of subsidy, the more reliable the revenue will be. In this respect, at least, true sustainability means departing from "self-sufficiency," probably for good.

A FINAL WORD

The Steppenwolf ensemble, from its youngest to its oldest member, spans more than a generation. Its founders and earliest members, now in their 40s and 50s, are still a long way from retirement and probably have a few more triumphs up their collective sleeve. Eventually, though, Steppenwolf will cease to be an artistic expression of its original ensemble's vision, or at least will cease to be a byproduct of their efforts. Time will pass and Steppenwolf will, of necessity, become something else.

The company has already, as we have seen, grown into something that its early ensemble had never imagined. (Or perhaps, given how little they had thought about such things at first, it might be more accurate to say that today's Steppenwolf has supplied them with a practical reality for something they had envisioned only in concept.) Because the early vision had everything to do with collective imagination, shared leadership, and an alchemical magic of combined talents, it will necessarily change as the particular talents in the group retire and are replaced.

Until the reorganization of 1995, it would have been hard to imagine how the company could survive so profound a change, or indeed any change that didn't

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involve the firsthand leadership of people who created Steppenwolf and put it on the national map. Now, even the ultimate transformation — to a company of different artists charting their own course for different audiences — is fairly easy to contemplate. The financial structure, the organization, and the artistic legacy are all strong enough, in tandem, to be led wherever talent and history may suggest. If Steppenwolf doesn't make it to a second (or, counting the 1995 transformation, arguably a third) generation, that will not be because it is ill-equipped to make the journey.

Given the strength of the underlying organization, any number of directions might be possible for a future generation of Steppenwolf. It could, under one possible vision, become a scrappy American version of Britain's Royal Shakespeare Company — an ensemble theater identified with its members, who represent the highest ranks of national talent and whose style defines a distinctive (if always evolving) approach to the art. It may instead become something more like its Chicago neighbor the Goodman Theatre or the New York Shakespeare Festival, centers of quality and innovation, but not the collective expression of a permanent ensemble. Or it could become the center of a "school of practice," no longer tied to particular personalities but a center for a specific style of rough magic, where future artistic delinquents would seek out new rules to break.

It's too soon for the question to arise, much less to guess what the answer might be. But when it does arise, it's unlikely to be the cause of much anxiety. What's interesting, at a time when the original Steppenwolf is still recognizable after nearly 30 years, is the durability of the institution it has created.

"Plenty of companies die because the founders can't imagine replacing themselves," Martha Lavey wrote in the company's 25th anniversary program. "The Steppenwolf founders and those original members of the company took another tack: They dared to believe that what they had created had real endurance, and they sought to sustain and grow that dream. … It is, finally, our job to replace ourselves. We commit to the transfer of what we know to younger artists who will, in their own turn, teach us something new."

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FOOTNOTES

1 Robert Coe, "Steppenwolf Howls Again," *American Theatre*, May-June 1996, p. 14.

2 As of the time this is written, Steppenwolf has in fact effectively hit that ceiling. With 23,000 subscribers, it now takes an eight-week run for all subscribers to be able to see a given production. That is close to a limit, given the competing commitments of many Steppenwolf ensemble members and other artists who work there, and the fixed number of weeks in a year.

3 *A Streetcar Named Desire*, which includes Blanche Dubois' famous exit line, was the highlight of Steppenwolf's 1997 season — the year in which individual donations began exceeding all the company's other fundraising.

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