

INDIANA UNIVERSITY

# Addressing Overhead Spending in the Nonprofit Sector

Honors Thesis

Meghan Roesner

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# ***Addressing Overhead Spending in the Nonprofit Sector***

**Meghan Roesner**

**Arts Management**

**Senior**

**Abstract submitted for SPEA Undergraduate Honors Thesis Presentations**

**Professor Cheryl Hughes**

**Lecturer, IU School of Public & Environmental Affairs**

**Faculty Mentor**

Let's pose a simple question: why do people give to charity? Several reasons immediately bring themselves to light. The first is that it makes people feel good. Giving to charity can help redeem an individual who feels poorly about themselves, or it allows people to give back to an organization that once helped them. It is a way for people to look good in the eyes of others and make a contribution to society. It can also be that it simply makes them a part of something bigger than themselves- it is a form of acceptance. In reality it is usually a combination of these factors that leads an individual, or group of people, to give to charity. The issue at hand with nonprofit spending does not have to do, however, with why people give to charity. It has to do with the decision that comes next- when I decide to give my money, what do I want it to do?

Nonprofits spend money on one of two things- overhead and programs. The simple definition of overhead spending is the money spent by an organization to keep its doors open, or as a theatre would say "keep the lights on". Program expenses are funds spent on the services the organization provides. These expenses are usually what donors want their money to affect, and for a good reason. They don't want to give money to "overhead" where an executive director is going to make budgeting decisions with it. They want to give it to educational, childcare and arts programs because that is where they think they can make a difference.

This can lead to a fatal underinvestment in overhead expenses, often referred to by nonprofit professionals as "the overhead myth". This is the dangerous assumption that low overhead costs are a good measure of a nonprofit's performance. In fact, it is often a poor measure of a nonprofit's performance. My thesis discusses the importance of dispelling this overhead myth in nonprofit organizations with an emphasis on the performing arts.

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## **Introduction**

Let's pose a simple question: why do people give to charity? Several reasons immediately bring themselves to light. The first is that it makes people feel good. Giving to charity can help redeem an individual who feels poorly about themselves, or it allows people to give back to an organization that once helped them. It is a way for people to look good in the eyes of others and make a contribution to society. It can also be that it simply makes them a part of something bigger than themselves- it is a form of acceptance. In reality it is usually a combination of these factors that leads an individual, or group of people, to give to charity. The issue at hand with nonprofit spending does not have to do, however, with why people give to charity. It has to do with the decision that comes next- when I decide to give my money, what do I want it to do?

Nonprofits spend money on one of two things- overhead and programs, otherwise known as "the cause". The simple definition of overhead spending is the money spent by an organization to keep its doors open, or as a theatre would say "keep the lights on". It includes operations, finances, human resources, and fundraising expenses; essentially everything that goes in to the day to day operations of any given nonprofit. Program expenses are funds spent on the services the organization provides. These expenses are usually what donors want their money to affect, and for a good reason. According to an article written by the Nonprofit Quarterly, people in our society give to program expenses instead of

overhead because of a message we are constantly receiving: that we are not capable of handling things ourselves. There is someone smarter who does our taxes, a better cook at a restaurant to make our food and a better politician that we vote for to make our decisions for us. Most of us aren't experts, but the one area where we can make a decision is in the way of charity. It gives us the chance to have our own power, and decide for ourselves what our money should do for others. They don't want to give money to "overhead" where some executive director is going to make budgeting decisions with it. They want to give it to educational, childcare and arts programs because that is where they think they can make a difference. This way of thinking has been so engrained into our brains because of the comparison between nonprofits and the rest of the economic sector. According to Dan Pallotta, an American entrepreneur and humanitarian activist, the way we think about charitable giving undermines the causes that we love so dearly. If we thought differently, more effectively, our dollars could do so much more.

What most funders fail to understand is that without overhead spending, there would be no nonprofit to begin with. To understand the next point, it is crucial to define what a nonprofit organization is. A nonprofit is a tax-exempt organization that exists to serve others in the form of charitable programs and services. They do not declare profits, do not have investors and do not return money back to shareholders because they have none. It is very important to note that nonprofits *are businesses*. They are allowed to make a profit just like any business or financial

institution, but the use of that profit is drastically different. All the money received by a nonprofit organization, from this point forward referred to as an NPO, is put back into the organization, in the form of overhead or program expenses. There is a clear cycle that emerges through this trough of definitions and declamatory statements- funder gives the money, the nonprofit takes the money, the money is spent, the nonprofit needs more money and the funder gives again. However if that funder is a believer in what NPO experts like to call the “Overhead Myth”, there will be no more donations and the nonprofit will cease to exist.

### ***The Overhead Myth***

What then, you might ask, is the Overhead Myth? According to a letter written by Guidestar, Charity Navigator and the Better Business Bureau Wise Giving Alliance, the Overhead Myth is the potentially fatal underinvestment in overhead by nonprofit organizations that fuels the fable that low overhead spending is a good measure of a nonprofit’s performance. Although donors don’t spend much time looking into a charity’s financials but rather at the programs, if they do the one piece of information they will look for is the overhead ratio. The overhead ratio is the percentage of total spending a nonprofit spends on overhead each year. If the donor perceives the ratio as too high, they will either advise that the funds be directed towards programming or chose to give to another organization that spends less on overhead. This lesser spending can often lead to underinvestment in different aspects of the organization, most importantly overhead. To support claims made in

their letter, Guidestar, Charity Navigator and BBB Wise Giving Alliance provided significant evidence collected from Indiana University, the Urban Institute and the Bridgespan Group that would be eye opening to many. The following are some key points of the research findings:

- 62% of all Americans believe the typical charity spends more than it should on overhead; 80% of adult Americans believe it should be held under 30%
- Nearly 2,000 nonprofits reported that receiving general operating support majorly contributed to easing burnout and stress among executive directors
- Charities reviewed and recommended by GiveWell in 2011 had higher overhead than the charities that were not reviewed or recommended- the difference was 11.5% and 10.8%
- General consequences of underinvestment include limited ability of the organization to manage/monitor different departments, limited ability to target and track fundraising, high turnover, poor work quality and limited ability to generate reports

It is clear that yes, there is a claim being made that nonprofits should be spending more money on overhead costs, but there is research and evidence to back it up. Another facet of this issue is that NPOs have a tendency to indulge in this trend themselves. They often report artificially low overhead spending, which in turn just

perpetuates the unrealistic expectation that overhead spending in NPOs should be low. Amy Coggins Gregory and Don Howard, both former consultants for the aforementioned Bridgespan Group, claims that the best way to tackle this issue is first with the funders and their unrealistic expectations. For overhead spending to increase and be documented by NPOs transparently it has got to start with a shift in thinking by those who give the money. Coggins Gregory and Howard use a different term for the Overhead Myth- they call it the Nonprofit Starvation Cycle. They claim that organizations stuck in this four stage starvation cycle are those that are under-investing in their overhead spending. The four steps are described here:

“The first step in the cycle is funders’ unrealistic expectations about how much it costs to run a nonprofit. At the second step, nonprofits feel pressure to conform to funders’ unrealistic expectations. At the third step, nonprofits respond to this pressure in two ways: They spend too little on overhead, and they underreport their expenditures on tax forms and in fundraising materials. This under spending and underreporting in turn perpetuates funders’ unrealistic expectations. Over time, funders expect grantees to do more and more with less and less—a cycle that slowly starves nonprofits.”

[\(http://www.ssireview.org/articles/entry/the\\_nonprofit\\_starvation\\_cycle/\)](http://www.ssireview.org/articles/entry/the_nonprofit_starvation_cycle/)

Whether or not there is agreement about starting with the expectations of funders is a mute point. What is not a mute point is the existence of this starvation cycle. To best understand the issues of overhead in nonprofits and the theories behind it, it is



crucial to see real world examples of NPOs who experienced issues with operating expenses that offer potential solutions to avoid them in the future.

### **Case Study #1: The Milwaukee Symphony Orchestra (MSO)**

The Milwaukee Symphony Orchestra (MSO) is the perfect example of an NPO that has found itself caught in the nonprofit starvation cycle with donors beginning to lose faith in the infrastructure of the organization. This past December, the MSO announced a \$5 million campaign to be completed in just two months time purely to keep their doors open. Two of that five million is to cover deficits from the previous year, and \$3 million is to balance out the current year's budget. Before the MSO went the public, they made significant changes within their organization. For the seventh time in 11 years that MSO musicians have conceded different items within their contracts. The working season for musicians will go from 39 to 44 with each musician working 40 of those weeks with a 4 week lay-off period. They will also extend the number of performance weeks at the Marcus Center for Performing Arts, Milwaukee's premier performance venue, from 23 to 27 or 28 weeks. The orchestra will also experience downsizing, going from an orchestra of 79 to a number in the high 60s. Musicians will also experience cuts to their health insurance plans. Overall these internal adjustments are to save the MSO around \$1.4 million.

President of the MSO Mark Niehaus calls these financial struggles "structural deficits", the result of years of large operating deficits. These deficits come from poor budgeting of overhead expenses that lead the MSO, and frankly many

organizations around the country, into a cycle that can only be broken if major changes are made. When undergoing their fundraising efforts, the MSO has not placed enough importance on raising money for overhead and cultivating new donors because they have experienced a dangerous over-reliance on a handful of “angel donors” that essentially bail out the MSO season after season. These angel donors have tired of rescuing the MSO from its flawed business and development plan, requiring the MSO to raise \$5 million within an incredibly short window.

The campaign is now over, with a successful \$4.8 million dollars raised by the end of February with a \$200,000 challenge grant extended to cover the final portion of the MSO’s final \$5 million goal. Within the first two weeks of the campaign, \$700,000 dollars had been raised from 900 different individuals (WSW). Another wave of donations came in late January after a rare violin was stolen from an MSO musician after finishing a performance. The violin was luckily recovered, and it was a chance for the community to strengthen its support for the arts when they were facing a serious loss. The largest contributors to the MSO’s campaign were Milwaukee-area foundations with a history of giving to the arts, including the Bradley Foundation, the Greater Milwaukee Foundation, the Helen Brader Foundation and the United Performing Arts Fund. These foundations in total contributed 1/5 of the campaign, coming in at \$1,192,000. The United Performing Arts Fund, the largest donor to arts organizations in the Milwaukee area, issued a \$250,000 challenge grant shortly after the announcement of the \$5 million

campaign. The United Performing Arts Fund currently is donating about \$1 million less than it used to the MSO, following the trend of donors who are tired of supporting an organization that experiences such a consistent deficit pattern.

Along with huge support from area foundations, the MSO received \$612,000 from area corporations including Northwestern Mutual, Rockwell Automation and We Energies. Another portion of the campaign funds were raised by 888 new donors in one week in, coming in at \$250,027 in the final weeks of the campaign. If there is any doubt about the value the MSO adds to the community of Milwaukee, that doubt can be squandered when you consider the other organizations that will be affected if the MSO were to close its doors. It is the most frequent performer at the Marcus Center for Performing Arts, the pit orchestra for the Milwaukee's Florentine Opera, fills a majority of the music faculty positions at the University of Wisconsin-Milwaukee and provides hundreds of kids throughout the Milwaukee area with private music teachers. When the rare violin, worth \$6 million, was stolen, the FBI Art Crime Team got involved. When renowned pianist Radu Lupu could not perform in a series of scheduled concerts, pianist Inon Barnatan flew in from California for the chance to play with the MSO and its conductor Edo de Waart. The MSO could be considered the glue that holds the Milwaukee arts scene together, and to lose the organization would be a huge loss to the Milwaukee community.

When interviewed about the state of the MSO and its \$5 million campaign, President Mark Niehaus said that budget cuts and changes were "necessary to

secure the support of large donors...Many of our closest donors needed to see this hard work done before they were going to commit long term.” If those donors could be convinced to be supportive long-term with these operational changes, can’t all donor bases for all different organization’s be swayed on the importance of strategic overhead spending? Don Layden, co-chair of Alverno College’s \$30 mill dollar campaign, board member of United Way of Greater Milwaukee and prominent businessman at Baird Venture Capital was quoted saying “In the new era, nonprofits will need strong, bottom-line oriented leaders to run their organization like a business.” When prominent business leaders, nonprofit directors and donors are all stepping up and admitting that something is wrong, that is a call for change. It is a call to invest in the operational expenses of nonprofits like a business and realize that you cannot have the amazing programs and all that comes out of these organizations without operational expenses. It just won’t happen.

***Dan Pallotta: The way we think about charity is dead wrong***

This concept of running a nonprofit like a business is also reflected in a Ted Talk given by Dan Pallotta, who also contributed the idea that the way we think about giving is wrong. Dan Pallotta is the founder of Pallotta Teamworks, which produced AIDS Rides and Breast Cancer 3-days. These events changed the landscape for ordinary people looking to make an extraordinary difference in the causes they believed in. As my personal inspiration for this topic, I would like to go into some of the main points he makes in a short summary of his talk.

The talk is entitled “The Way We Think About Charity is Dead Wrong”. The many problems we face are massive in scale. Homelessness, poverty, hunger, all are massive battles that nonprofits attempt to fight every day. Massive problems usually require massive warriors to fight them, but our nonprofit organizations are tiny in comparison. We have a belief system that keeps them tiny, and they cannot grow into the warriors they can be to fight the battles of the world. What then, does it take to grow these nonprofit organizations? Pallotta uses his own organization as an example.

Beginning in 1994, PallottaWorks was asking people what was the most they could do instead of what was the least they could do. Between the years 1994-2002, the events netted \$305,620,303. 2002 was their best year netting \$81,985,303.

What happened to Dan Pallotta’s organization is quite staggering but is also reflected with nationwide charitable statistics. Between the years of 1970-2009, the number of nonprofits that crossed into \$50 million in annual revenues was 144. The number of for-profit businesses was 46,136. That is a staggering difference that is also reflected in our nation’s GDP, in which charitable giving has stayed at 2% for the past 40 years. These issues stem from what Pallotta calls two “rule books”. He says we have one for nonprofits and one for the rest of the economic world. These rule books discriminate against nonprofits in five crucial ways:

1. Compensation. More bright students are graduating from universities and flocking to the for-profit sector because they do not want to make the

financial sacrifice made by those in the nonprofit sector. That is not the only reason, but it does show a stark contrast between the attitudes of the two different sectors. Those who produce for themselves and those who produce for others. This is a strong contrast and is not universally applicable, but it is present when individuals decide to work in the nonprofit sector. Pallotta raises this question: why should those who chose to help other people for a living be punished for making money off of that when others are praised for making money off of material goods like video games? How can we help people and invest in “the cause” if we do not compensate those who make the sacrifice?

2. Advertising and Marketing. As a society we support large amounts of money spent on advertisements for major corporations like Coca-Cola and McDonalds, but we do not want our charitable donations to go towards that advertising. Think about how many more people could be reached to attract to the cause if that is what we wanted. To give people have to be asked, but if you do not ask them they will not give. Advertising is a way to reach people. The more people you reach, the more help you can give to those in need and multiply your resources.
3. Taking Risks for New Revenue. Pallotta compares this to the film industry. Disney can spend millions of dollars on a film that flops and we don't bat an eyelash. If a nonprofit undergoes a \$1 million fundraiser that doesn't

produce profit in the first 12 months their character is called into question. This leads to a fear for nonprofits of taking risk and undergoing large philanthropic movements that may come with large risk but even larger reward.

4. Time. People do not have patience for nonprofits. They may have patience for a company like Amazon that takes 6 years to turn a profit but people hold confidence because of their long-term goals. Nonprofits have long-term goals that can be met with time, but the expectation of immediate effect prevents them from taking the time to fulfill their dreams
5. Profit to Attract Risk Capital. The for-profit market can return profit to those who invest in taking monetary risks. Nonprofits don't have that ability and therefore they starve for growth and risk and idea capital. People need to see the cause as an investment, which most of the time is not as powerful as a risk-filled financial return.

These disadvantages lead to one very dangerous question donors ask themselves: what percentage of my donation goes to overhead costs? Overhead becomes a nasty word that people think is not a part of the cause. This attitude forces charities to forego the resources they need to grow to retain their donors. But doesn't more growth mean helping more people? If there is no growth you cannot expand the net of your reach to make a larger impact. What donors see is money directed away from the cause, when in fact it is what makes the cause grow.

Pallotta ends his talk with several key points. First he points out that donors confuse morality with frugality. Reducing overhead costs may seem like a moral crusade, but in reality is a dangerous form of frugality. He returns to his point about our nation's GDP resting at 2%. If we could raise that by 1% to 3% of the GDP, we would have an extra \$150 billion a year for our nation's charitable causes. This increase could create huge advantages for charities to grow. His final point is to not ask charities about the cost of their overhead, but the scale of their dreams. Ask what resources they need to make their dreams come true and invest in that to make the cause worthy of a donation. In the case of the MSO, this could have helped avoid years of annual bailouts from exhausted angel donors and a cycle that required an emergency campaign every five years or so just to keep their doors open. They were dreaming in the short term, and so were their donors.

### **Case Study #2: New York City Opera**

Another example of poor financial management on an organization's part is the recent closing of the New York City Opera. In the beginning of September 2013, the New York City Opera (City Opera) announced a \$7 million emergency campaign to be raised by the end of the month in order to finish the 2013-2014 season. City Opera announced its closing October 1<sup>st</sup>, 2013, having only raised \$2 million of its \$7 million goal. Several reasons have been attributed to the closing of this organization:

- City Opera moved out of its long-time home, Lincoln Center for the Performing Arts, in 2011.



- Sacrifices in pay and benefits were made by musicians to keep City Opera alive in the past. They went from salary pay 29 weeks of the year to being paid by rehearsal and performance.
- “People with a lot of money, but no common sense” Alan Gordon, Executive Director for the American Guild of Musical Artists.
- Serious invasion of City Opera’s Endowment. In June 2001, the endowment was valued at \$51.6 million. By June 2013, it had a value of \$5.2 million. This is attributed to investment losses and several invasions of the funds to cover other costs. In late 2008 early 2009, the board took \$24 million out of the endowment to finance payroll and other obligations. Guess what kind of costs those are- OVERHEAD.
  - “suicidal thing to do” Manuel Hoelterhoff, Pulitzer Prize-winning opera critic

The situation of the New York City Opera reflects many of the things the Milwaukee Symphony Orchestra is facing. City Opera did not have the luck that the MSO had in raising its emergency funds and is facing the consequences of poor financial planning and decisions. Significant donors of the City Opera felt the same frustration with the Opera’s spending habits as they did with the MSO. Mayor Michael Bloomberg, a part supporter of the City Opera, was quoted saying that the “business model doesn’t seem to be working” and that he would not, and the city would not, come to the rescue of the Opera. They may have been in deeper trouble than the

MSO, but the message is still the same: if you can't convince the donors any longer, and your spending habits are reckless and uncalculated, the organization will eventually go under.

### **Case Study #3: Steppenwolf Theater Company**

Not all nonprofit organizations fail in the face of turmoil. In fact, some truly seize the day and build incredible operations that can withstand the test of time. One of these NPOs is the Steppenwolf Theater Company in Chicago, IL. Steppenwolf began as a small theater off of "the Loop" founded by three men barely 20 years of age in 1974. *Now Steppenwolf has the second-biggest theater in the city of Chicago and ranks among the top-six of nonprofits ranked nationally.* As Tony Adler wrote in Bloomberg Businessweek in 2007: "The company, in other words, has become exactly that: a company."

Before Steppenwolf became what it is today, it faced the hard stages of growth that any organization must face. Prior to turning into a \$12 million a year entity, Steppenwolf was funded mainly by the box office and donations from its board of directors who helped nurture the organization to its potential. It is not really a "then-and-now" type of tale, but rather a transformation of an organization with strong, consistent leadership. Three things can be taken into account when an arts organization thrives: artistic talent and vision, stable business and capital structure. It is an error to assume that the latter two are luck that comes with artistic talent and vision. It takes strategic planning, budgeting, and sound decision

making to help and arts organization blossom. A report on Steppenwolf from but the Nonprofit Fundraising Fund can be quoted saying “few nonprofit organizations, especially in the arts, are truly ‘secure’...the best ones endure with some combination of donations, box office receipts, smart investments, and consistent, first-rate management and governance.” It is crucial to have leaders that make sound business decisions that will lead an arts organization to success, and among those decisions is deciding how to invest in overhead.

After about the first ten years of Steppenwolf’s existence, leadership and everyone else involved began to view themselves as a true company rather than a cohort of determined, talented artists. As their success and organization grew, so did their overhead. This growth and rise in overhead presented a paradox: “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.” In other words, as wonderful as growth can be, it comes with it long term consequences that must be taken into account if the organization wants to remain sustainable. To engage in the growth Steppenwolf bought a new space that increased its seating capacity by 77 seats. Even with the necessary new seating, rent was about fifty times more than what Steppenwolf was currently paying, which contributed to the \$13,000 net loss they were experiencing on an annual basis. Steppenwolf needed to proceed with caution, and after careful consideration determined that the stakes were low. More seating in a theatre does not guarantee

higher ticket sales, but essentially guarantees higher rent, cost of production and management as well as a more severe penalty if things were to collapse down the road.

This decision to move was not just because Steppenwolf wanted to sell more tickets- they had the demand for more tickets. They had waiting lists for their shows, had extended runs and even moved productions to different locations to accommodate for their demand in ticket sales. This made them confident that they could manage and sustain 57% audience growth. And indeed Steppenwolf found out they could support that growth. The theatre company was grossing \$5,400 per seat in their new space by the end of 1988. In one year Steppenwolf experienced 40%. In business standards, a for profit enterprise with investors experiencing this type of growth would now be planning on going public within the next few months. That is a huge leap from the start-up cohort that was performing in the basement of a church only a few years prior.

After this expansion exploded in all areas of Steppenwolf and they continued to be more successful. They produced a Tony Award winning production of *The Grapes of Wrath* in 1989 that is still revered by drama enthusiasts today as one of the signature pieces of theatre they have seen in their lifetime. Actors from the Steppenwolf family were “leaving” (because actors don’t really *leave* Steppenwolf) to make big names for themselves in the film industry. These names include Joan Allen, Glenn Headly, Austin Pendleton and Gary Sinise. As the chronicle of the

Steppenwolf from the Nonprofit Finance Fund put it, “as the company’s reputation spread, its actors’ reputations were spreading even faster.” Not Steppenwolf was famous not only in its own name and success but in the names and success of its actors. Steppenwolf was no longer an intimate group of theatre lovers and patrons, but an organization growing into a corporation that needed business and financial leadership. They expanded their board to 29 in 1987 and were up to 42 members by 1992. Now even board members were making Steppenwolf famous, as sitting on the board and contributing to this nationally-renowned theatre company was a mark of social status

Two Tony Awards, unprecedented success on the stage, international recognition, famous actors who could attribute part of their success to Steppenwolf and a board made up of Chicago elites all lead to the next step in Steppenwolf’s life: another big move. This move would not be the same as the last: Steppenwolf wanted a home built to their specifications, not just another building with more seats to fill. After making original plans with a developer, who also happened to be a theatre lover, to build a new space in Chicago’s Lincoln Park neighborhood when the developer’s business started failing and the project had to be halted. This meant an even longer period of time that Steppenwolf had to wait to receive the doubled audience space, small studio theatre, rehearsal space, new stage with wing and fly space, dressing rooms and spacious areas for props, set construction, a costume shop and administrative offices that they had long been wanting. This also meant

Steppenwolf had to change its business plans: to still purchase the property, even at a reasonable price, they would have to increase their campaign goals by three million dollars, the company's single-biggest asset would be valued at nine times its annual revenue, and Steppenwolf would now be a developer, landowner and debtor- not just a theatre company.

Steppenwolf was lucky enough to find a new developer to take over the project for a fee they could manage, and things went relatively well from that point forward. They even received a \$350,000 challenge grant from a notoriously careful foundation from a cold call with little precedence. About 12 months later Steppenwolf has its new home that reflected their style and aesthetic wholeheartedly. There was excitement to have a place to finally call Steppenwolf's home, but there were serious long-term overhead expenses that needed to be addressed. The production style, sound systems, development department, box office, and rent opportunities all presented Steppenwolf with consistent, necessary overhead expenses that had to be included in their new business plans. In the same chronicle from the Nonprofit Finance Fund mentioned before, it is true that "this shift in obligations normally has a subtle and pervasive effect on an organization's psychology, and by extension, on the way it operates." Even the leadership had to face tough, and somewhat emotional, changes. Now the art and the business were becoming separate entities, requiring separate boards. An executive artistic board was created that would focus specifically on the artistic decision-making process.

This was difficult for some of the Steppenwolf founders to swallow at first. However, with subscription sales struggling, it was soon seen as an unavoidable transition to have boards that dealt with different matters of the organization. Members of one board, who also worked for Deloitte, developed a strategic plan to recharge subscription sales to be able to keep up with the almost tripling of infrastructure costs. The plan had to take into account the possibility of spending more money to make more money, which in the end it did. As changes were made, revenue per artistic staff member began to grow which is the mark of an organization that has a good fit with its audience. This was in part due to an increase in revenue along with an increase in the amount of staff members. An increase in staff had to be made to meet the increasing complexity of Steppenwolf, which was now becoming a theatre for artists not just a company of artists.

Throughout the next several years Steppenwolf made serious strides establishing an endowment, building a strong annual fund campaign and opening the School at Steppenwolf and adding the educational component that so many donors often look for in an arts organization. The main challenge that Steppenwolf faced with all the other challenges throughout the years was keeping their vision and original goals in line with all the obstacles and growth that came their way. Dan Pallotta would be proud of them for keeping in mind their long-term goals and bringing people on board who cared about the scale of their dreams and who knew what costs would be associated with those dreams.

The best way to sum up the success of Steppenwolf and its promise for the future is in the words of Martha Lavey, Steppenwolf's artistic director since 1995: "The Steppenwolf founders and those original members of the company took a different 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."

## **Conclusion**

That is how all nonprofit arts organizations should approach the future of their organizations. In order for an organization to grow, prosper, and ultimately thrive many years into the future it must embrace change. They must embrace new leadership, new business models, and new ways of fund development. This embrace of change must also include the ever important decision to take pride in the money an organization must spend on itself. It must include donors who embrace the new way of thinking the overhead spending alone is NOT a good measure of a nonprofits performance, and that without proper investment in infrastructure first and organization will ultimately fail. We have seen this time and again with the Milwaukee Symphony Orchestra, the New York Opera and many others. We have also seen a flourish in companies like Steppenwolf where leadership makes sound decisions that although sometimes are tough, they are made for the good of the organization. They brought the right people on board who knew what the



organization needed and when. They made small steps that focused on the long-term scale of their dreams and has made them one of the top nonprofit organizations in the nation.

These strategies summarized and encourage by Dan Pallotta, reflect the direction in which nonprofit arts organization need to head. It not just one but all organizations can actualize this shift and bring their donors on board with them, we will have a much healthier, robust community of arts organizations in our world that can contribute even more to the preservation of old art and creation of new art. Our world needs art, and if we do nothing to change the path down which we are headed we, as donors, will see the ultimate downfall of the arts that stems directly from our behavior and through process.

I have great faith in the abilities of the next generation of arts leaders to uphold the dreams of their respective arts organizations. After all, what good is it to suggest change if there is no faith where those ideas of change originate?

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