

Independent Study: Charitable Activity

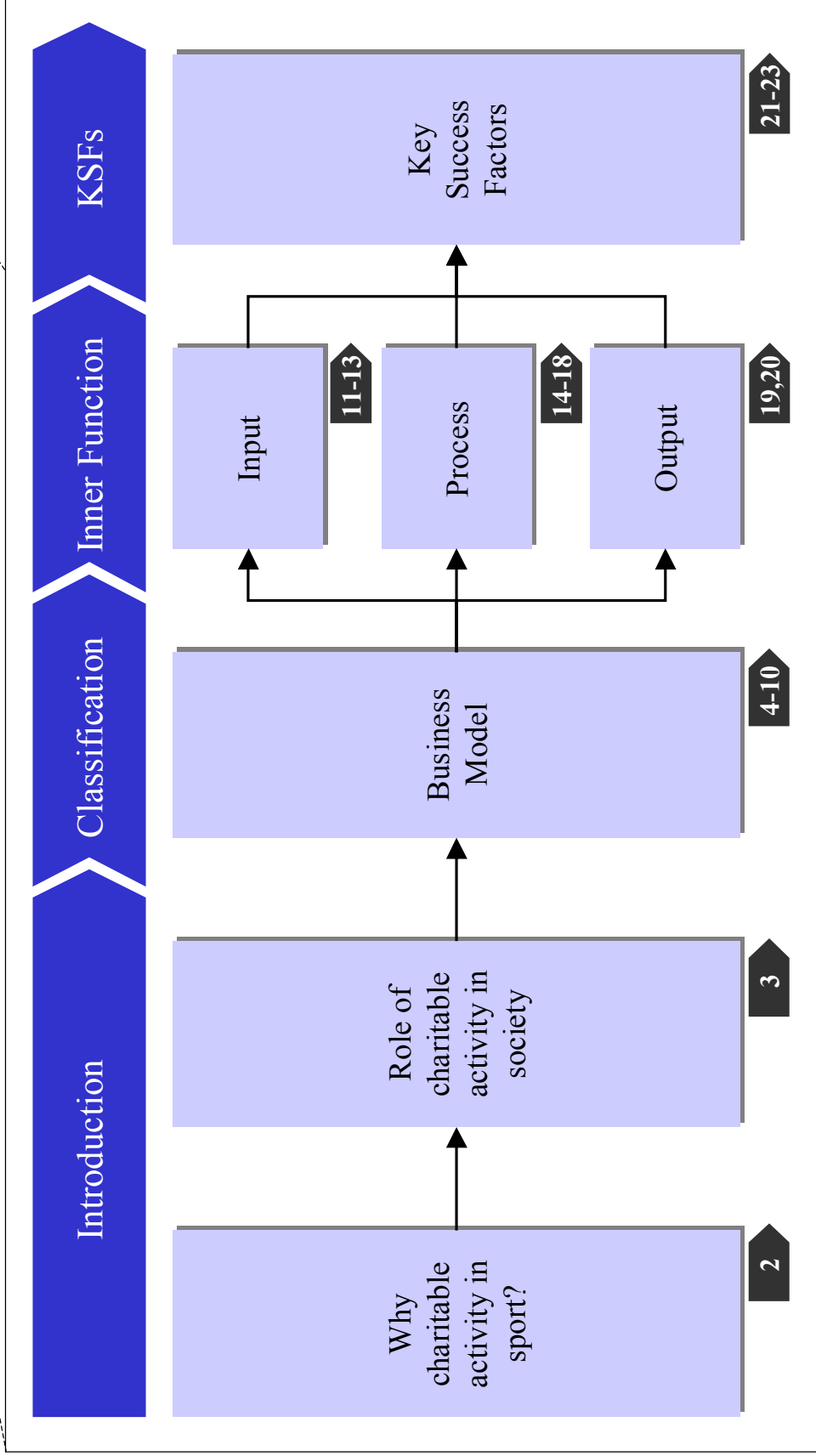
Final Report



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Tomoya Suzuki
June 5, 2001

Charitable Activity: Final Report

0. Approach

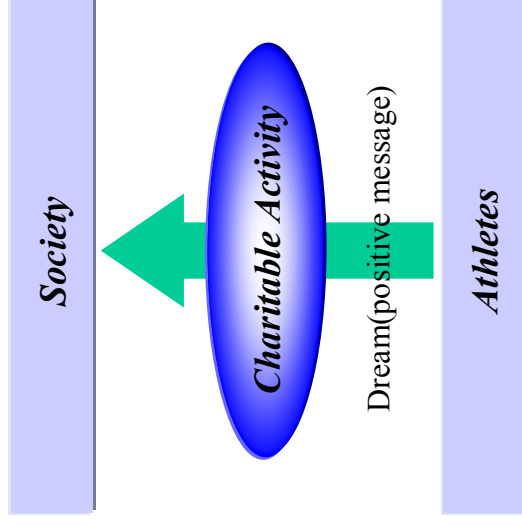
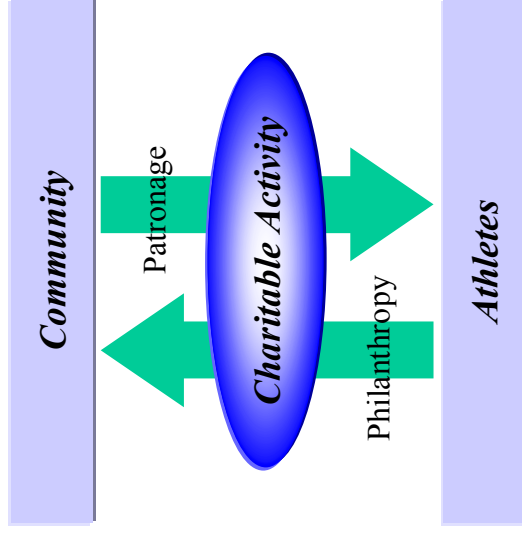


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1. Why we focus on charitable activity in sport?

◆ Charitable activity can establish a reciprocal relationship between athletes and community.

◆ Charitable activity can also play a role as a dream incubator, and provide a positive message to society.



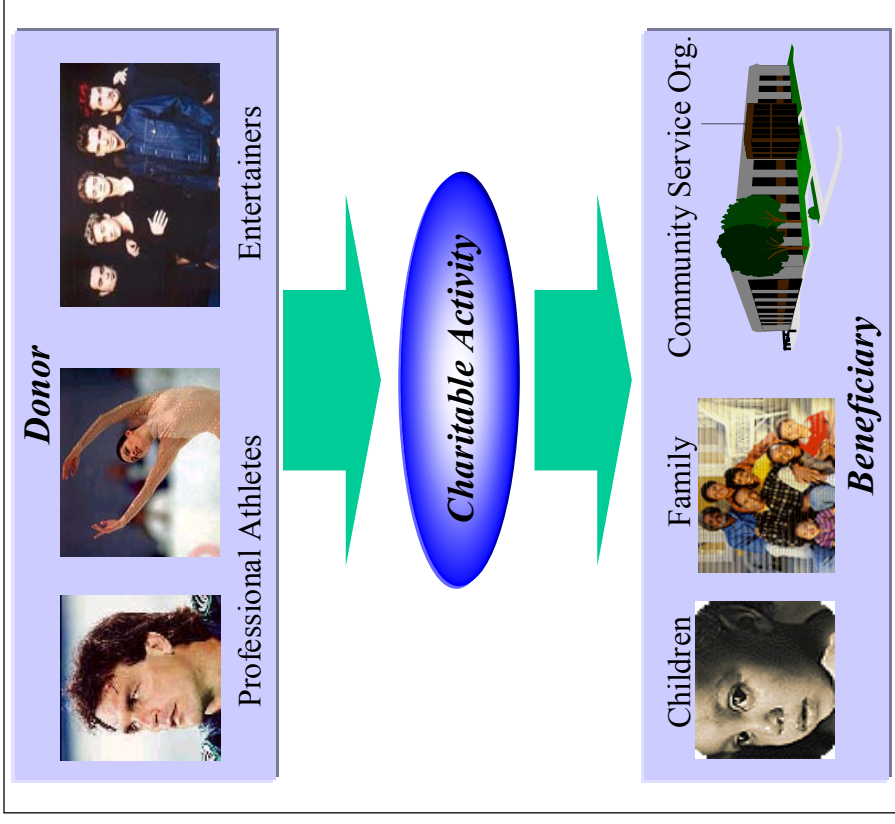
- ◆ We believe that Charitable Activity can provide *a brand new possibility of sport*.
- ◆ We also believe that Charitable Activity can contribute to *improve Japanese sport industry*.
- ◆ Above is why we chose Charitable Activity as a theme of this independent study.

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2. Role of charitable activity in society

- ◆ Charitable activity provides a mechanism for uniting a wealthy nation (donor) and a nation in need (beneficiary).
- ◆ Charitable activity works for the benefit of both nation for fostering growth in communities, families, and so on.
- ◆ Benefits of donor are..
 - Efficient and effective asset management
 - Establish and increase philanthropic reputation
 - Tax, legal, and financial advantage
- ◆ Benefits of beneficiary are..
 - Monetary support
 - A donor could be positive role model for children to admire and adults to emulate

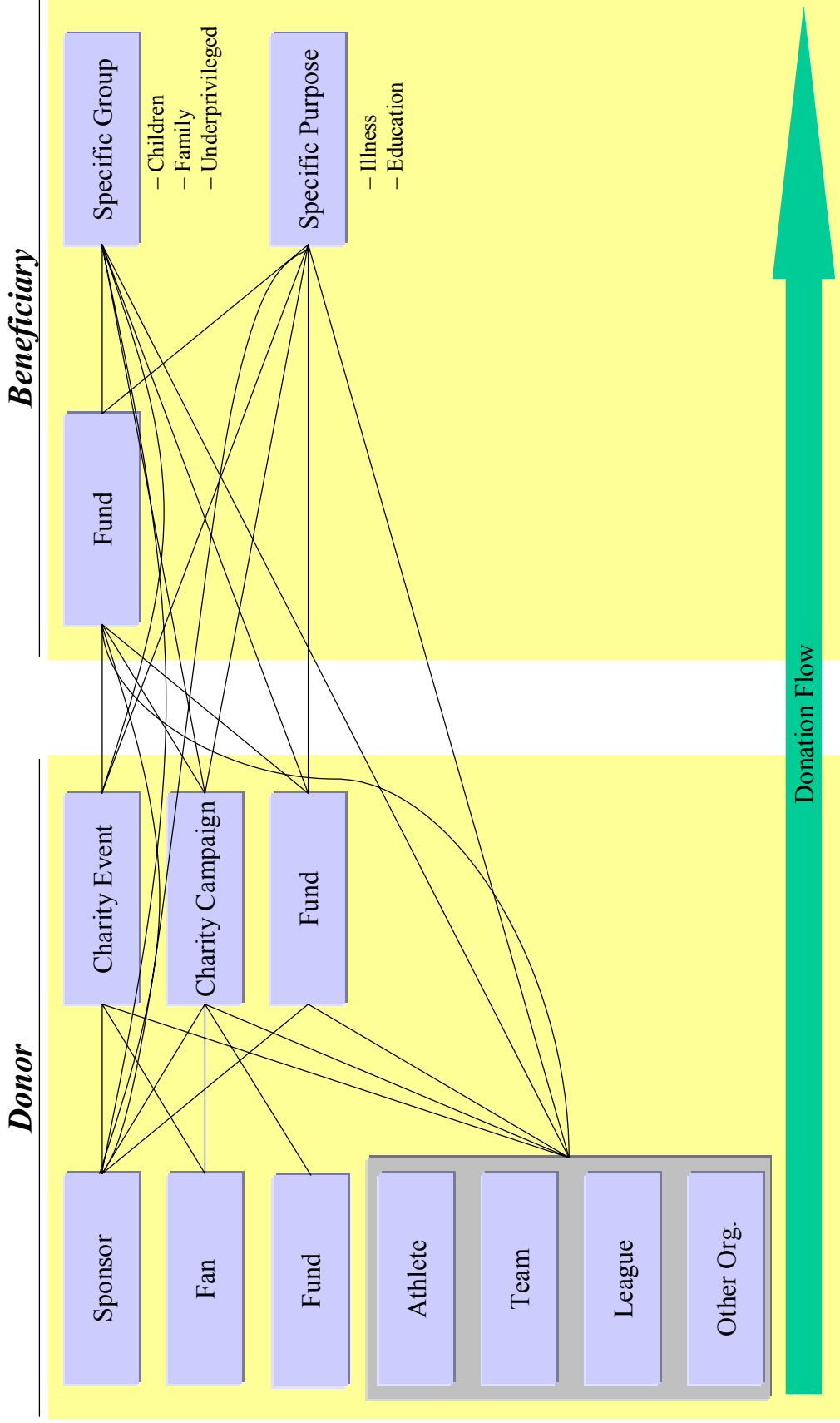
Mechanism of charitable activity



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3. Business model

3.1 Possible entities and donation flow



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3. Business model

3.2 Classification of donor type

- There are **three types of donors** in terms of contents of donation and a host of charitable activity.

<i>Donor Type</i>	<i>Contents of donation</i>	<i>Host of charitable activity</i>
1. Simple Donation	Donor's belongings	Donor
2. Charitable Activity Hosting	Donor's belongings + Sponsors/Fans	Donor
3. Charitable Activity Enterprise	Donor's belongings + Sponsors/Fans	Charitable Entity

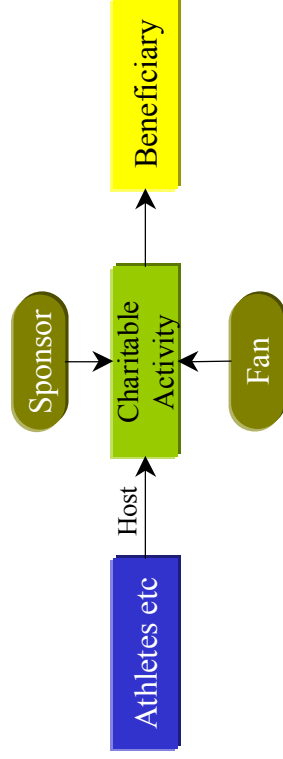
1. Simple Donation

Donor simply donates to beneficiary



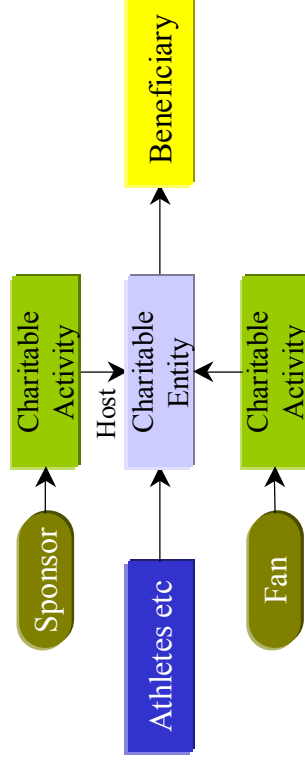
2. Charitable Activity Hosting

Donor hosts a charitable activity, and benefits from fans/sponsors are donated to beneficiary



3. Charitable Activity Enterprise

Charitable entity projects plural charitable activities systematically by using reputation of athletes/teams/leagues, and benefits from fans/sponsors are donated to beneficiary



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3. Business model

3.3 Classification of beneficiary type

- There are **two types of beneficiaries** in terms of how donation is donated to beneficiary.

<i>Beneficiary Type</i>	<i>How to donate</i>
1. Direct Acceptance	Direct to beneficiary
2. Indirect Acceptance	Indirect to beneficiary

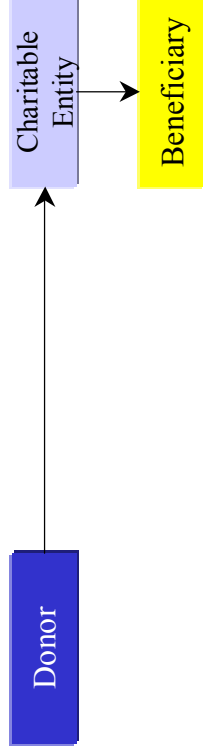
1. Direct Acceptance

Donation is donated to beneficiary directly



2. Indirect Acceptance

Donation is once donated to charitable entity, and it contributes to beneficiary

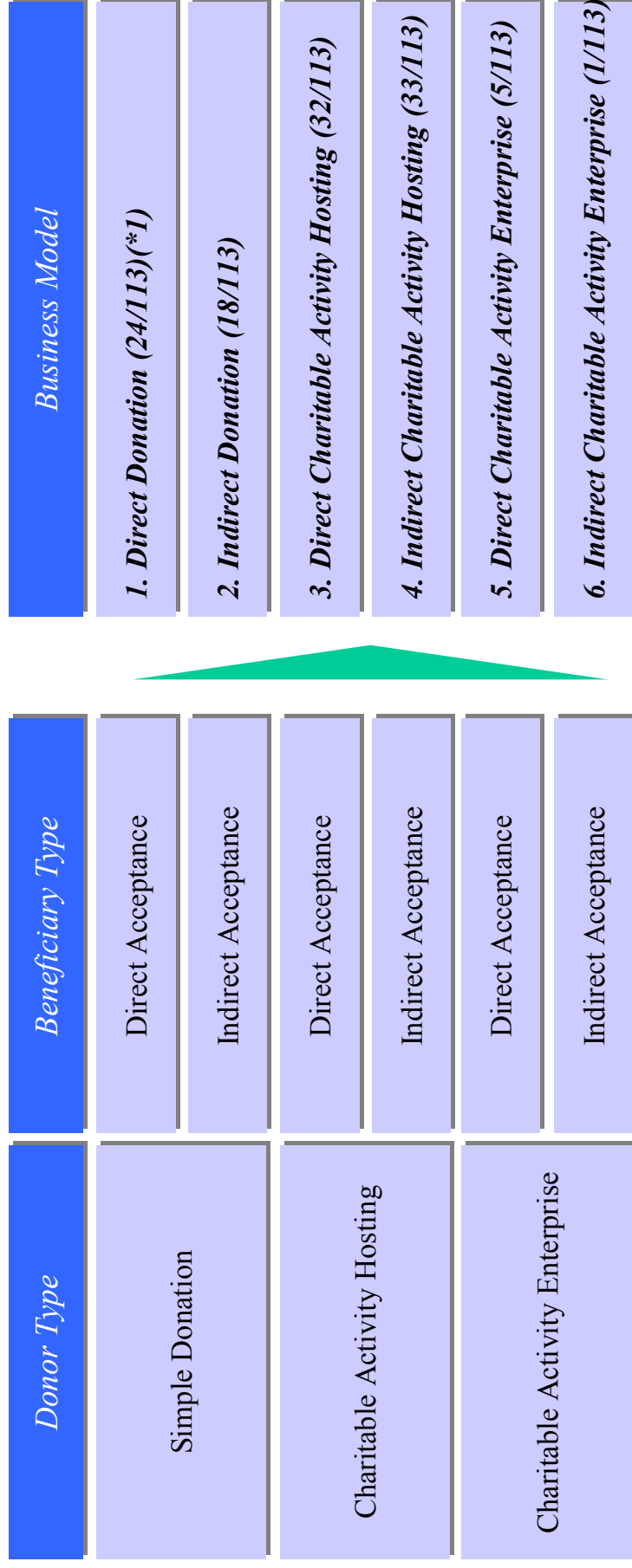


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3. Business model

3.4 Classification of business model

- There are **six types of business models**.



*1: 113 articles out of 204 from the Sport Business Journal can be plotted here. The rest 91 articles cannot be plotted because of insufficient information.

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3. Business model

3.5 Examples(1/3)

1. Direct Donation

Simple Donation + Direct Acceptance

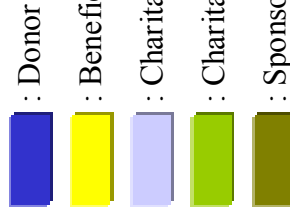
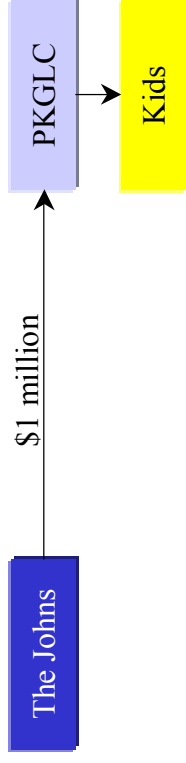
- Former MLB player, Paul Molitor donated \$250,000 to his alma mater, the U of Minnesota



2. Indirect Donation

Simple Donation + Indirect Acceptance

- San Diego Padres owner, John Moores and his wife, Becky donated \$1 million to The Pro Kids Golf and Learning Center's scholarship endowment fund



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3. Business model

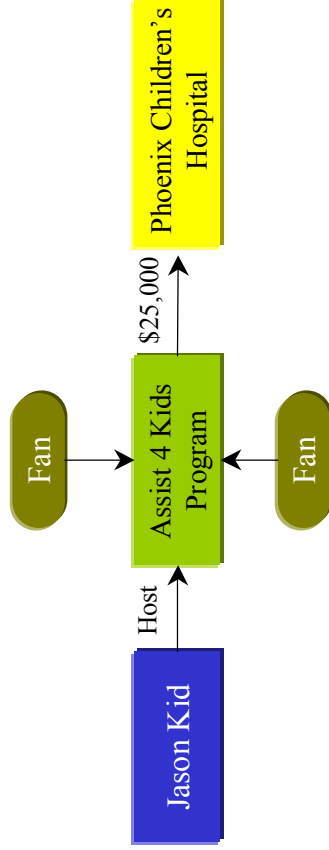
3.5 Examples(2/3)

3. Direct Charitable Activity Hosting

Charitable Activity Hosting + Direct Acceptance

e.g.) Assist 4 kids Program

- Jason Kid hosted Assist 4 Kids program
- Fans donate for every assist made by Kid during the 99-00 NBA regular season
- The outcome of the promotion, \$25,000, was donated to the Phoenix Children's Hospital

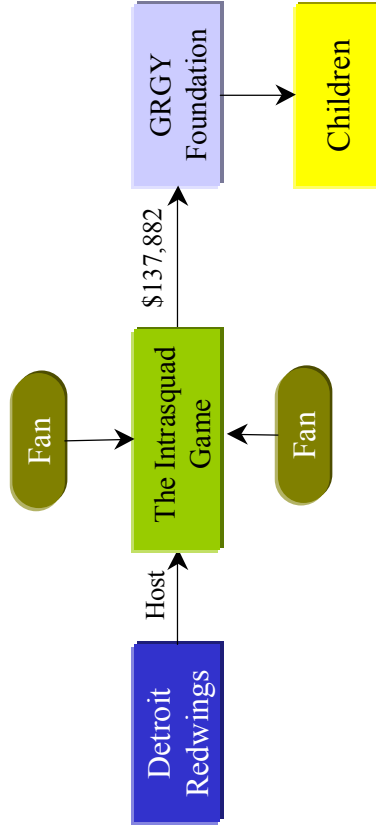


4. Indirect Charitable Activity Hosting

Charitable Activity Hosting + Indirect Acceptance

e.g.) The Intrasquad Game

- The Detroit Redwings host the Intrasquad Game
- The Intrasquad Game raised \$137,882
- The money was donated to the the Grand Rapids Griffins Youth Foundation



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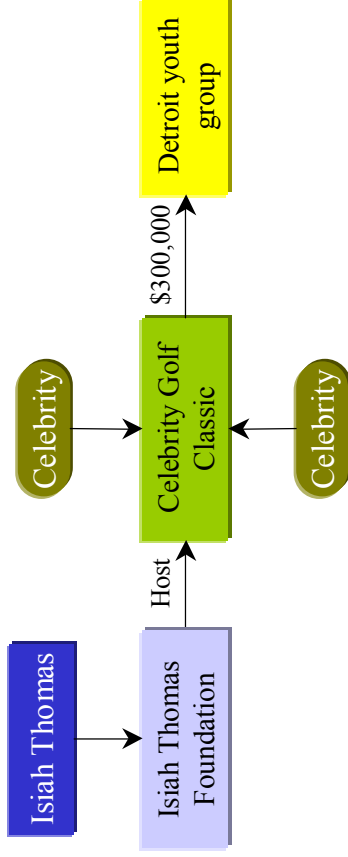
3. Business model

3.5 Examples(3/3)

5. Direct Charitable Activity Enterprise

Charitable Activity Enterprise + Direct Acceptance

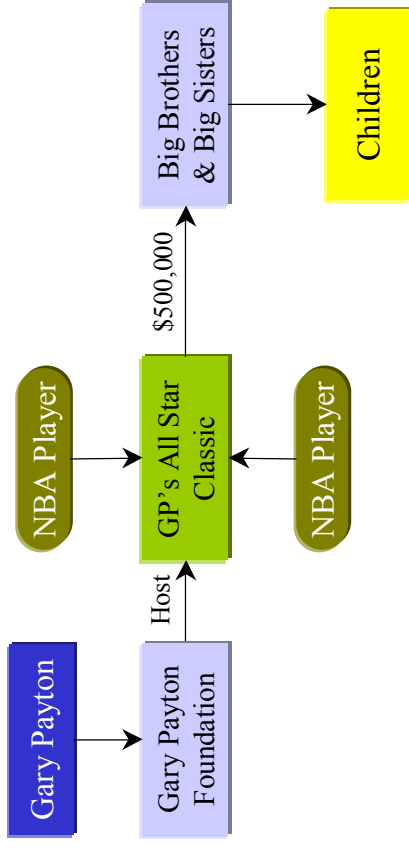
- Isiah Thomas has hosted Isiah Thomas Foundation
- The foundation hosted Isiah Thomas Foundation Celebrity Golf Classic
- This event raised \$300,000 and the money was donated to the Detroit youth group



6. Indirect Charitable Activity Enterprise

Charitable Activity Enterprise + Indirect Acceptance

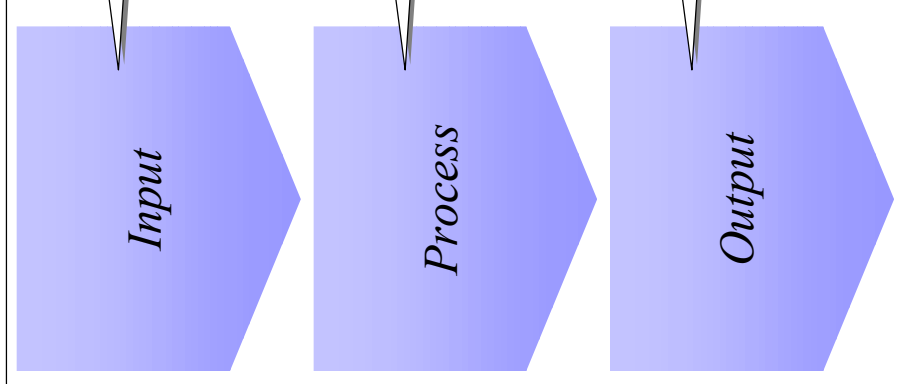
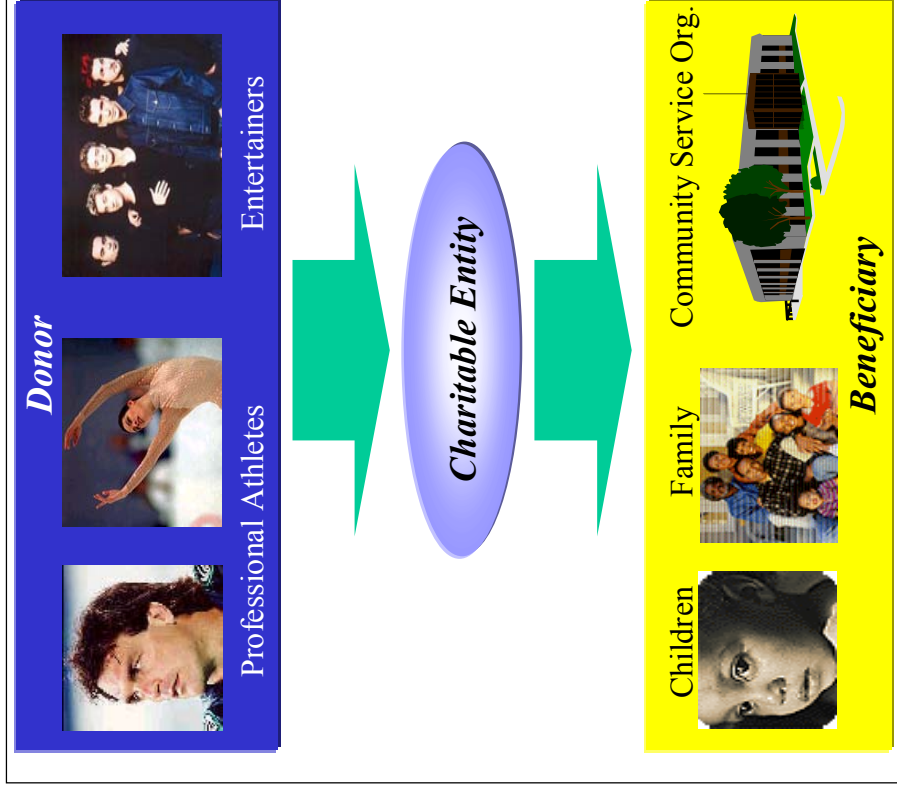
- Gary Payton has hosted Gary Payton Foundation
- The foundation hosted Gary Payton's All Star Classic.
- This event attracted NBA stars and raised \$500,000.
- The money was donated to the Big Brothers & Big Sisters of King Country



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4. Business function

Business function of charitable activity



- How to collect donations from donors.

- How to reduce administrative cost.
- How to gain profit.

- Means to choose beneficiaries.
- Decision basis in choosing beneficiaries.

Charitable Activity: Final Report

4. Business function

4.1 Input (How to collect donations) (1/2)

➤ There are three types of donations in terms of “Simple Donation.”

1. Money

2. Actual thing

e.g.) Chargers Stan Humphries and his donated Chargers-themed waiting room in the hospital.



3. Formless contribution

e.g.) Tiger woods invited more than 3,500 minority and disadvantaged youths to Tiger Woods Junior Golf Clinic



Charitable Activity: Final Report

4. Business function

4.1 Input (How to collect donations) (2/2)

➤ There are three ways to collect donation in terms of “Activity Hosting.”

1. Raise fund from profit of charitable activities

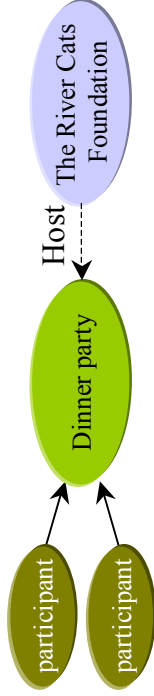
- There are two types of charitable activities
 - Sport relating activity

e.g.) **Hail Mary pass catch:** 42 participants paid \$1,000 each for a chance to catch Hail Mary pass Flutie threw



- Other activity

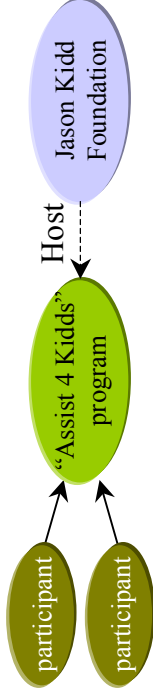
e.g.) **Fund-raising dinner party:** players, coaches, and staff of the Sacramento River Cats (AAA baseball team) held fund-raising dinner party.



2. Raise funds according to players’ performance

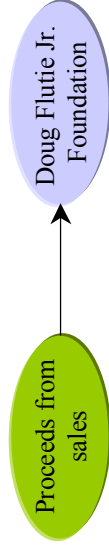
- Fans pledge to donate according to player’ performance such as assist, kick point, strike out and so on.

e.g.) **Assist 4 Kidds:** Fans pledge donation for every assist made by Jason Kidd during the 99-00 NBA regular season



3. Raise funds based on the sales of products

- Proceeds from sales of goods such as snack, book, auction and so on will be donated
- e.g.) **Flutie Fruitie Snacks:** proceeds from sales of snacks will be donated to Doug Flutie Jr. Foundation for Autism



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4. Business function

4.2 Process (How to manage foundation efficiently) (1/5)

- The main issue in managing charitable entity is how to reduce operation cost
 - Sammy Sosa's charitable foundation was accused of misusing money
 - It's still unclear how much of the money donated was actually used to provide charitable services instead of being consumed by administrative overhead
- There are **seven ways** for efficient operation of charitable entity
 1. Outsourcing
 2. Becoming public enterprise
 3. Establishing fund designed only to cover operating cost
 4. Establishing ventures to support operation
 5. Endowment (Investment)
 6. Using volunteers
 7. Using independent contractor

Charitable Activity: Final Report

4. Business function

4.2 Process (How to manage foundation efficiently) (2/5)

1. Outsourcing

- Charitable entity can reduce cost by outsourcing its operation.

Annual costs between the Giving Back Fund and private foundation

Expenses	GBF	Stand-Alone
Legal		
501(c)(3)Tax Exempt Status		\$10,000 to 50,000
Routine Legal Advice		\$3,000
Personnel		
Executive Director		\$50,000
Secretarial Services		\$25,000
Insurance		\$8,500
Employee Taxes		\$12,500
Professional Services	\$12,500	
Accounting		\$10,000 to 15,000
Web Site Design and Maintenance		\$10,000 to 15,000
Office Expenses		
Office Rent		\$10,000 to 15,000
Office Furniture		\$5,000 to 10,000
Computers		\$5,000 to 10,000
Administrative Expenses		
Phone/Fax/Copy etc		\$10,200
TOTAL	\$12,500	\$159,200 to 224,200

The Giving Back Fund offers the following services:



- Strategic/Legal consultation
- Financial planning
- Investment management
- Day-to-day administrative support
- Grant making
- Web site development/maintenance
- Public relations
- Special event coordination

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4. Business function

4.2 Process (How to manage foundation efficiently) (3/5)

2. Becoming public enterprise

- Charitable entity can appreciate various advantages by becoming public enterprise

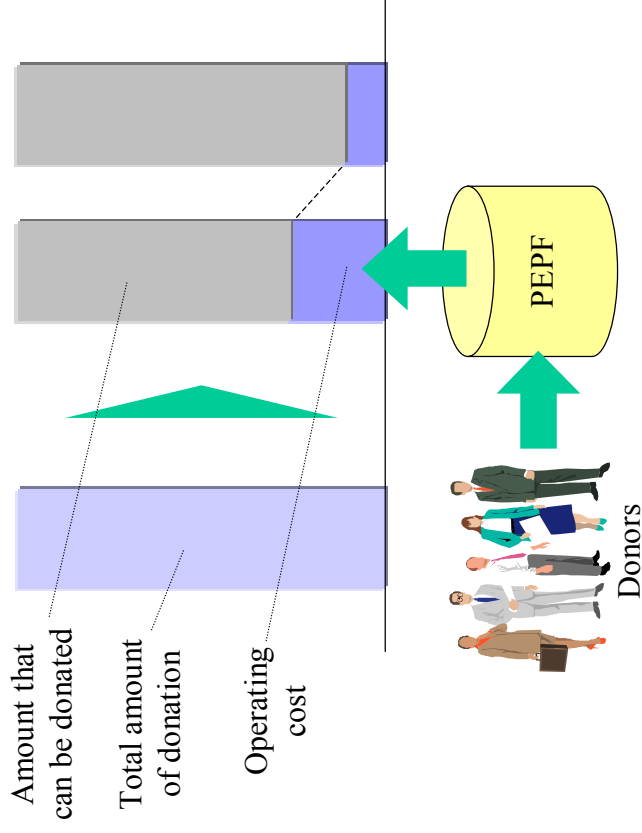
	Public Foundation	Private Foundation
Tax deductible gifts	Charitable income tax deduction -50% of AGI (cash gift) -30% of AGI (property)	Charitable income tax deduction -30% of AGI (cash gift) -20% of AGI (property)
Tax (deductibility)	Immediate income tax deduction for the full fair market value of a gift	Immediate income tax deduction limited to the tax basis of a gift
Excise tax	Not subject to any excise taxes on investment income	2% annual excise tax on investment income
Distribution requirements	Not encumbered by annual distribution requirements	Required to distribute at least 5% of their net asset value annually

AGI: Adjusted Gross Income

3. Establishing fund designed to cover operating cost

- Charitable entity can deduct cost by establishing fund which is designed only to cover operating cost

e.g.) The P.E.P. Foundation (The Foundation to Promote and encourage Philanthropy)



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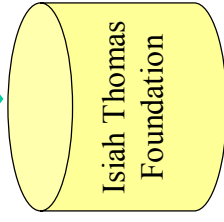
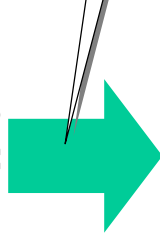
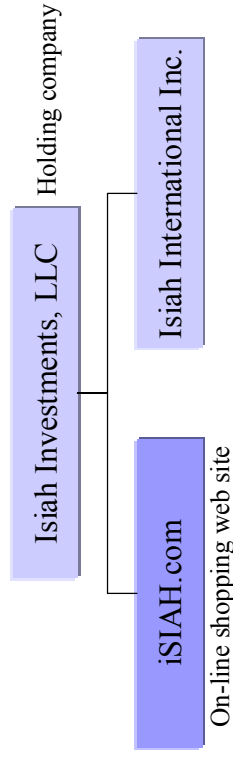
4. Business function

4.2 Process (How to manage foundation efficiently) (4/5)

4. Establishing ventures to support operation

- Charitable entity can deduct cost by establishing ventures from which certain amount of sales is designed to cover operating cost.

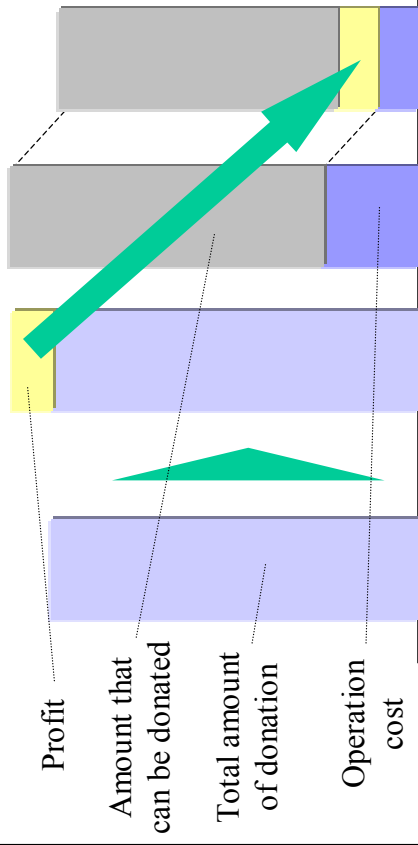
e.g.) iSIAH.com



Certain amount of proceeds from sales in iSIAH.com is used to cover operating cost of the Isiah Thomas Foundation.

5. Endowment (Investment)

- Charitable entity could deduct cost by investing donations in low-risk financial portfolio.



Certain amount of profit gained by investing donation in low-risk financial portfolio could share operation cost.

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4. Business function

4.2 Process (How to manage foundation efficiently) (5/5)

6. Using volunteers

- Charitable entity can deduct cost by using volunteers.
- Foundation's mission and employers' /employees' personality is crucial for hiring volunteers

e.g.1) Law firm, accounting firm, and web maintenance company work for the Giving Back Fund for free.

e.g.2) A lawyer and an accountant work for the Stand Tall Foundation for free.

7. Using independent contractors

- Charitable entity can deduct cost by using independent contractors who already have connections with community in certain region.
- Whether to use independent contractor or not is depend on place and event history.

e.g.) The Giving Back Fund sometimes uses an independent contractor in a local event.

Charitable Activity: Final Report

4. Business function

4.3 Output (How to choose beneficiaries) (1/2)

Main beneficiaries

- There are two main categories for beneficiaries
 - Purpose
 - Education
 - Relief of disaster
 - Nursing for disease
 - Enhancement of research
 - Encouragement of sport
 - Help for the underprivileged or the physically handicapped
 - Specific demographic target
 - Children
 - Family
 - Male/Female
 - The old
- These two categories are usually mixed
e.g.) Children suffered from autism

How to collect beneficiaries

- There are three ways to choose a beneficiary
 - Donor's preference
 - Closed offer
 - Open offer
 - Public appeal through the Internet
e.g.) The Doug Flutie, Jr. Foundation for Autism (*1)

How to Apply for a Grant

Grant guidelines for this year's grant cycle are posted below. proposals must follow the attached application format and include all specified information. The deadline to submit a grant Proposal to the Doug Flutie, Jr. Foundation is September 29, 2000. Grant recipients will be announced on December 15, 2000 and listed here on this page. Grant proposals must be postmarked by September 29th and mailed to:

The Doug Flutie, Jr. Foundation for Autism
54 Canal Street, Suite 320
Boston, Ma 02114

*Proposals will not be accepted by fax or email.

Thank you for your interest.

*1: <http://www.dougflutie.org/grant.html>

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4. Business function

4.3 Output (How to choose beneficiaries) (2/2)

Decision basis in choosing beneficiary

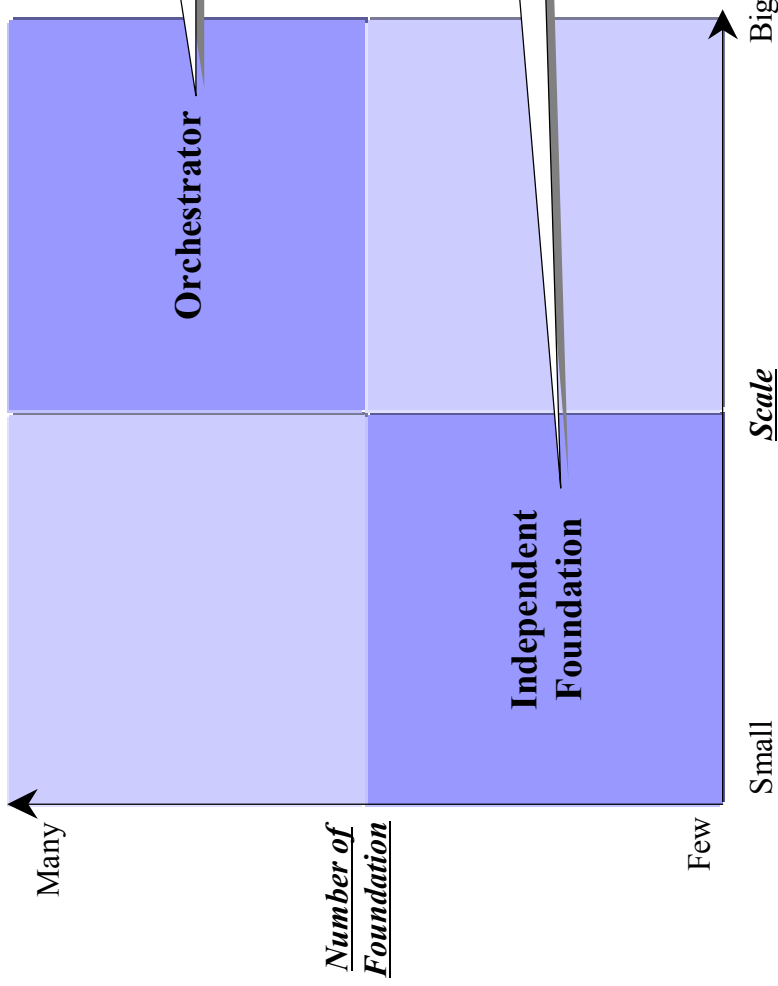
- Mostly beneficiary is chosen based on donor's direct individual experience, such as disease of a child, disaster in hometown and so on.
 - Direct experience, connection, or worry
 - Disease of a child
 - e.g.) **The Doug Flutie, Jr. Foundation for Autism** was established by Doug Flutie and his wife who have a child suffered from autism to support autistic children and their families.
 - Disaster in hometown
 - e.g.) **Florida Marlins Community Foundation** has been supporting families who lost their homes because of severe flooding in Florida. They received more than 25,000 pounds of drinking water from the Foundation.
 - Encouragement of specific sport
 - e.g.) **Reviving Baseball in the Inner City program** which is introduced by the MLB is aiming to support six inner-city communities that are planning teams for boys ages 13-18 and girls ages 12-18.
 - Merit of brand management
 - e.g.) **Bus Stops Here Foundation: Jerome Bettis** visited 30 inner-cities in Pittsburgh by bus with personal computers, and gave children opportunities to learn basic computer and internet skills.

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5. Key success factors

5.1 Types of charitable entity

➤ There are **2 types of charitable entities**.



- Charitable entity that orchestrates multiple foundation.
- Lower cost by economy of scale.
e.g.) Giving Back Fund

- Charitable entity that usually has only one foundation.
- Most common type of foundation.
E.g.) Stand Tall Foundation
Eric Flaim Foundation

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5. Key success factors

5.2 Key success factors in common

- There are **4 key success factors** for both charitable entities in common.

<p>1. Stay solid</p> <ul style="list-style-type: none">➤ To stay solid in management is the only and the most effective way to keep charitable entity clean and to make credibility from athletes.➤ “To stay solid is a bottom-line for efficient management.” (Stephanie Sandler: The Giving Back Fund)	<p>2. Very selective about donors/beneficiaries</p> <ul style="list-style-type: none">➤ To be selective about donors and beneficiaries gives charitable entity a good reputation and credibility.➤ “Only player who is respected from everybody and has charitable spirit can be a good donor.” (Jay Nkonoki: The Stand Tall Foundation)➤ “Make sure beneficiary is non-profit organization in order not to hurt player’s reputation.” (Jay Nkonoki)
<p>3. Incubate donor’s charitable spirit</p> <ul style="list-style-type: none">➤ Try to incubate donor’s charitable spirit because sometimes donor’s charitable spirit is vague and immature.➤ “Always try to give a player an option to think even if it may delay the decision.” (Jay Nkonoki)	<p>4. Establish good relationship with community</p> <ul style="list-style-type: none">➤ To establish good relationship with community is crucial because charitable activity is usually based on small region.➤ “Try to establish good connection with community because people tend to be skeptical about any charitable activity.” (Jay Nkonoki)

Charitable Activity: Final Report

5. Key success factors

5.3 Key success factors for each type

<p style="text-align: center;"><u><i>For orchestrator</i></u></p>	<p style="text-align: center;"><u><i>For independent foundation</i></u></p>
<ul style="list-style-type: none">● Stay inside of core competence➤ Charitable spirit sometimes makes people working for orchestrator blind about the fact that charitable entity has very limited management resources because there are so many things to do.➤ For example, the Giving Back Fund has only 6 full-time employees for 24 member foundations.➤ Therefore, to understand the core competence of the charitable entity and stay inside of it is crucial to be efficient in management and to keep customer service level higher.➤ “The Giving Back Fund didn’t always do everything, but just was handling paper work.” (Eric Flaim: Founder of the Eric Flaim Foundation)	<ul style="list-style-type: none">● Stay small➤ Usually, an independent foundation has one or two full-time employees, so stay small is the bottom-line for efficient management.➤ For example, the Stand Tall Foundation has only one employee, Jay Nkonoki, the executive director.➤ The Eric Flaim Foundation has two employees, Eric Flaim himself and his wife.

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6. Offer from Eric Flaim

- Offer from Eric Flaim
 - He needs help for his charitable event.
 - He proposed that he can provide some opportunities for UMass sport management students to learn actual operation of charitable activity in exchange for volunteer work.
 - The event in the near future is “Bike Ride.” (50 miles bike ride maybe in this September to October)

➤ Who’s Eric Flaim?

- Founder of the Eric Flaim Foundation.
- A four-time Olympian and two-time Olympic medalist and the only American to medal as both a long and short track speed skater.

Career highlights

- Three-time U.S. Olympic Team Member '88, '92, '94
- 1988 Olympic silver medalist, 1500m - 1:52.12
- 1988 World All Around Champion
- 1988 World Sprint Championships, 1st - 1000m, 3rd - overall
- National Long Track Champion - '88, '89, '90, '92
- 1989 World Cup Championships, 1500m
- 1993 World Allround Speed Skating Champion
- 1993 World Sprint Championships Bronze Medal
- 1994 Olympic Silver Medal - Short Track 5000m
- National Short Track Champion - '94, '95
- 1995 World Short Track Championships - 5th overall
- Former World record holder - Long and Short Track
- Current American record-holder in 5000-meters (6:47.09)

