

Financing of social programs in conflict times on the basis of venture philanthropy: Accounting aspect

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Abstract: *The purpose of the article is to substantiate the need to find alternative sources of social programs funding in conflict times. In particular, the relevance of the use of venture capital in the entity's social responsibility implementation has been proven. Also authors set the task in the article to substantiate the measures in terms of organizing the formation and provision of information on the financing of social programs on the basis of venture philanthropy, in particular on venture financing. This goal is realized on the basis of application of methods of observation, comparison, analysis, synthesis, generalization and economic-statistical method. Carried analysis allowed to update the new information needs of social investors in assessing the effectiveness of their participation in the financing of social programs. Since modern society today evaluates the activities of a business entity not only in terms of the quality of services and products it produces, but also assesses the readiness and specific steps of the company to address important social issues. It is found that the use of the mechanism and principles of venture philanthropy in financing charitable activities of enterprises is a fairly new phenomenon in world practice, but in international practice there are several successful examples of implementation and financing of social programs using venture capital.*

Keywords: *venture financing, venture philanthropy, social programs, information support, accounting organization*

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1 Introduction

In the development of approaches to modern business, its social responsibility is becoming increasingly important. Thus, today society is becoming accustomed to monitoring and evaluating the activities of an entity not only in terms of quality of services and products it produces, but also to assess the readiness and specific steps of the company to address relevant and important social issues. The active position of the company in support of socially vulnerable groups of the population of Ukraine, in particular taking into account the times of conflict and pandemics in the world, is becoming relevant today and deserves support and positive assessment in society.

Venture capital in this aspect is important because it helps to expand sources of social programs funding. Today, the involvement of investors and their contributions to the social development of Ukrainian enterprises in the form of venture capital is only at the initial stage of implementation of the principles of such financing. It should be noted that venture financing in our country at this stage of its economic development is equated to direct financing or raising capital for the development of the business entity. Today in Ukraine, targeted assistance predominates, in particular, venture financing involves the investment

of financial resources, as well as in the form of intangible assets, know-how or high-quality management staff.

According to research, the most common are those charitable tools that are based on the financial assets of companies: the provision of targeted charitable assistance, the implementation of own operational charitable or grant programs, the creation of a corporate fund. Many companies have started the practice of implementing charitable programs through cooperation with charitable and public organizations (Savchuk, Bugera, 2011).

The use of the mechanism and principles of venture philanthropy in financing charitable activities of enterprises is a fairly new phenomenon in world practice, but in international practice there are several successful examples of implementation and financing of social programs with the participation of venture capital investors. Thus, the financial support of social and philanthropic programs with the use of venture capital involves not only the financial participation of the philanthropist, but also his active participation in the management of the recipient of financial investments.

An example of a fund that operates on the basis of venture philanthropy is the Bill and Melinda Gates Foundation. Its activities are aimed primarily at improving the health care system and educational projects. The board also includes Warren Buffett. This fund seeks and finances effective projects. Today, it is the largest in the world and manages more than 44 billion dollars.

Venture philanthropy can be an important resource for social entrepreneurship because it combines the methods of venture business and philanthropy. It is not aimed at charitable assistance for specific individuals, but at building independent social projects at enterprises.

2 Methodology and Data

Venture philanthropy differs from the usual in greater desire for innovation and experimentation, in this activity, philanthropists are looking for entrepreneurs who understand the risk. Venture philanthropy provides resources by sharing the philosophy of social entrepreneurship and effective altruism. The latter needs to analyze the consequences of all their actions, even altruistic, in order to maximize the positive effect (Matthews, Dylan, 2015).

The loan system, focused on the investment use of borrowed funds, sets income from investment projects as the main financial source that provides repayment and prompt servicing of the loan. However, the risk that the implementation of any project is delayed or will fail at all, does not apply to the final investor. If necessary, an additional source of repayment is included, i.e. directly through the state budget (Chyzhevskaya, Zelenina, 2009). The main common characteristics of venture philanthropy include: active involvement; specially selected financing (investment approach to determine the most appropriate financing for each individual organization); long-term support (significant and stable support for a limited number of organizations). Another characteristic of venture philanthropy is non-financial support, i.e. in addition to financial investments, venture partners provide other services that provide individual advice on organizational management, strategic planning, marketing and communications, staffing. In addition, it is important that venture philanthropy donors are focused on strengthening the organizational capacity and long-term viability of the organization and the development of its program activities, and not just to support one-time projects or programs. It is also worth noting such a characteristic of venture philanthropy as performance appraisal, i.e. the ability to measure venture philanthropy investments with an emphasis on business planning, achieving measurable results and individual stages and at a high level of financial reporting and competent management of the organization. For the development of philanthropy in Ukraine, the variety of tools and forms of charity that are common in domestic and foreign practice is important. When implementing charitable programs, business organizations use various types of charitable tools: opening a separate charitable account, grant and operational (charitable) programs, corporate fund, programs of

assistance with goods and services (In-Kind Giving), corporate volunteering, providing expertise and skills (Pro Bono), etc. (Savchuk, Bugera, 2011).

The partnership of a philanthropist (venture capitalist) and a recipient of social and financial assistance has its fundamental differences compared to conventional investment and, as a rule, for venture capitalists it is a risky investment that does not provide any guarantees for the investor. A venture capitalist will make a profit when he is able to sell his share or stake at a price that will far exceed his initial investment. The dual nature of venture capital investments is that for an enterprise that owns an innovative product, they can act as equity (share in the share capital) or as borrowed capital (in the form of bond liabilities). This has a direct impact on the indicators of non-financial reporting (Prochazka, Dvorakova, 2019)

In general, venture activity is a rather specific and risky business. Therefore, the presented features of venture activity cause a significant impact on the accounting system, which is seen in the formation of information in the accounting system of venture investments in the form of grouping data by venture investment activities, stages, forms of financing, stages. Accounting should provide complete and timely information on venture capital transactions in order to make timely and effective management decisions in the field of venture capital.

A venture capitalist who heads a fund or company does not invest in his own company. A venture capitalist is an intermediary between syndicated (collective) investors and the entrepreneur. This is one of the most fundamental features of this type of investment. On the one hand, the venture capitalist independently decides on the choice of an object for investment, participates in the work of the board of directors and contributes to the growth and expansion of the company's business, on the other - the final decision on investment is made by the investment committee that represents the interests of investors. Ultimately, the profits that a venture investor receives belong only to the investors, not to him personally. He has the right to count only on part of this profit. These principles were laid down at the initial stage of the formation of venture capital by the founders of this business - T. Perkinson, J. Kleiner, F. Cofield, B. Byers and others. In 1950-60, they developed new basic concepts of financing: the creation of partnerships in the form of venture funds, raising money from limited liability partners and establishing rules to protect their interests, the use of the status of general partner.

The presented features of venture activity cause a significant impact on the accounting system, which is seen in the formation of information in the accounting system for venture activity in the form of grouping data on areas of venture investment activities, stages, forms of financing. Accounting accounts, in turn, accumulate information about the costs incurred in the course of venture investment activities, their places of origin, centers of responsibility and sources of funding. In addition, the formation of analytical sections of the grouping of accounting data is carried out in order to make timely and effective management decisions.

Taking into account the information needs of the participants of venture investment, the directions of organization and methods of accounting for the following type of financing at the recipient enterprise are determined: improving the documentation of transactions with venture investments in terms of determining the order of documentation, determining the list of standard forms of primary documents, developing a schedule for their preparation and submission; identification of synthetic and analytical accounting accounts, information on which is systematized in certain analytical sections, as well as improvement of the order of accounting reflection of business transactions with venture financing; clarification of the content of the form of financial statements "Balance Sheet" on the sources of venture financing, as well as the development of forms of internal management reporting (indicating information on raising financial resources through venture financing; on venture capital transactions).

An in-depth analysis of venture financing of social programs characterizes the level of their provision in the form of own and / or borrowed venture capital. We propose to calculate the following coefficients: the coefficient of providing the social program with equity venture capital (CPIP_OwVenchC), the coefficient of providing the social program with borrowed venture capital (CPIP_BVenchC), the coefficient of providing the social program

with venture capital (CPIP_VenchC), which characterizes financing, as well as venture capital in general. At the stage of determining the effectiveness of venture financing, it is advisable to determine the following profitability indicators: return on equity (POwVenchC), return on loan venture capital (PBVenchC), the effectiveness of venture capital participation in financing social programs (venture capital) (PVenchF). The calculation of these indicators reflects the level of additional income of venture capital in different variants of the structure of sources of its formation and shows how many percent will increase the profitability of venture financing as a result of receiving funds from venture investors in the form of equity or debt venture capital.

Without factor analysis of the indicator of the profitability of own and borrowed venture capital, it is impossible to take into account all factors that will have an impact on the financial performance of an innovative enterprise. This is first and foremost the features of innovative products, the quality of managerial abilities of the management of the enterprise, the choice of areas for the use of venture financing, etc. Therefore, the next step in the in-depth analysis of venture financing is important – this is a factor analysis of the profitability of own and borrowed venture capital. To calculate the influence of factors on the change in the profitability of own and borrowed venture financing, we use the acceptance of expansion of factor systems. On the basis of this reception, the following factor model was constructed:

$$P_{VenchF(VenchC)} = \frac{FR}{VenchC} = \frac{FR}{VenchC} \times \frac{BVenchC}{BVenchC} \times \frac{OwVenchC}{OwVenchC} = \frac{FR}{OwVenchC} \times \frac{OwVenchC}{BVenchC} \times \frac{BVenchC}{VenchC} \quad (1)$$

where FR – financial result before taxation (total profit) of the innovative enterprise; VenchC – total amount of venture capital; OwVenchC – own venture capital; BVenchC – borrowed venture capital.

However, comparison of financial results before tax with the amount of own venture capital allows to calculate the profitability of its own venture capital (POwVenchC) and shows the effectiveness of its use. In addition, comparison of the amount of own and borrowed venture financing among each other allows to determine the stability coefficient of venture financing (CStVenchF) and compare borrowed venture capital with venture capital in general – concentration coefficient of borrowed venture capital (CConcBVenchC). In view of the above, the effective probability indicator of venture financing will be presented in the form of a multiplicative model:

$$P_{VenchF(VenchC)} = P_{OwVenchC} \times C_{StVenchF} \times C_{ConcBVenchC} \quad (2)$$

We will test the specified factor model, using the initial data of the activities of the innovative enterprise of Ukraine.

Table 1 Output data for factor analysis of the venture capital profitability (venture financing)

of the Ukrainian enterprise			
Indicator	Base period	Reporting period	Absolute deviation
The amount of venture financing in the form of own capital (OwVenchC), thou. UAH	870,0	985,0	+115,0
The amount of venture financing in the form of borrowed capital (BVenchC), thou. UAH	980,0	982,0	+2,0
Total amount of venture capital (VenchC), thou. UAH	1850,0	1967,0	+117,0
Financial result before taxation (total profit) of the innovative enterprise (FR), thou. UAH	7100,0	8450,0	+3971,0
Stability coefficient of venture financing (CStVenchF)	0,89	1,0	+0,11
Concentration coefficient of borrowed venture capital (CConcBVenchC)	0,53	0,5	-0,03

Profitability of venture financing (venture capital) (PVenChC)	3,84	4,3	+0,46
Profitability of venture financing attracted in the form of own capital (POwVenChC)	8,16	8,58	+0,42

Using the method of absolute differences, we will conduct a factor analysis of the profitability of venture financing of the innovation enterprise of Ukraine:

$$\Delta \text{PVenChC (POwVenChC)} = 8,58 * 0,89 * 0,53 - 3,84 = 0,21 \text{ points};$$

$$\Delta \text{PVenChC (CStVenChF)} = 8,58 * 1,0 * 0,53 - 4,3 = 0,25 \text{ points};$$

$$\Delta \text{PVenChC (CConcBVenChC)} = 8,58 * 1,0 * 0,5 - 4,55 = -0,26 \text{ points};$$

Thus, in reporting period, an increase in the profitability of venture financing by 0.46 points is observed at the enterprise of Ukraine, indicating an improvement in the efficiency of the use of such financing. This increase in profitability was due to the following factors: increased profitability of own venture financing led to an increase in the profitability of total venture financing by 0.21 points; the increase of the coefficient of stability of venture financing also positively influenced the profitability of venture financing, which led to an increase of 0.25 points; the decrease of the coefficient of the concentration of borrowed venture capital by 0.03 points negatively affected the profitability of venture financing and led to its decrease by 0.26 points.

3 Results and Discussion

The use of relatively new sources of funding of charitable activities of enterprises, in particular the principles of venture philanthropy, will promote social participation of economic entities in resolving pressing issues in conflict, including the expansion of social programs to support and adapt servicemen from military conflicts and their families, i.e., aimed at improving the socio-economic living conditions of specific groups of the population of Ukraine. In the process of research the main specific features of the model of venture financing of social projects are revealed and its relevance in the conditions of hybrid war is substantiated.

Taking into account the provisions of regulations, the work of scientists and practical experience in managing venture financing allowed to determine the specifics of accounting for such financing and stages of management (identification and evaluation of forms of venture financing, comprehensive analysis of venture capital, risk management of venture financing, determining the effectiveness of social programs based on venture philanthropy principles, reporting on venture finance management).

It is substantiated that the main advantage of the proposed approach to information support of management of social programs financing on the basis of venture philanthropy is the complexity of the approach, as it takes into account specific features of venture financing and its risks, as well as not only planned but also unplanned (both positive and negative) results of activity play a particular role in assessing the effectiveness of such financing. It is proved that the proposals will help to improve the accounting of financial support of socio-philanthropic programs using venture capital, thereby ensuring effective management and evaluation of venture capital participation in charitable activities.

Traditional sources of financing of corporate social responsibility do not live up to the expectations placed on them by today's modern requirements. Therefore, the issue of identifying alternative and rational sources of funding of social programs, taking into account the political realities in the country and the world, is relevant. Thus, the use of relatively new sources of funding of charitable activities of enterprises, in particular the principles of venture philanthropy, will promote social participation of business entities in resolving pressing issues in conflict, including the expansion of social programs to support and adapt servicemen from military conflicts and members of their families, i.e. aimed at improving the socio-economic living conditions of specific groups of the population of Ukraine.

Consequently, the increase of profitability of venture financing in the form of own capital and the stability coefficient of venture financing had the positive impact on the increase of the profitability of venture capital, while a decrease in the concentration coefficient of the

borrowed venture capital of the enterprise of Ukraine had the negative impact on the profitability of venture financing.

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