CHARITY PRACTICED BY COMPANIES AND ORGANIZATIONS IN TRANSITIVE ECONOMIES

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Abstract: Charitable giving and core factors that force people and companies to practice charity were always one of the main concerns of scientists. Under economic conditions, charity, as an activity, becomes more and more important because it can be thought of as an instrument for reallocating resources, capital and even time which belonged to those who provide charity. Making charitable giving attractive for companies and people who are responsible for cash and resources flows remains a topical issue. It is always a very disputable point since the market economy and voluntary help are the contradictions by their nature. Therefore, there is a stable understanding of charity among business persons and managers which significantly lowers the importance and necessity of implementing charitable practice into a company’s strategic plans. This is reflexively expressed in a personal attitude of many people to charity. Besides, if we have a look at a typical hierarchy of a company’s objectives, we will not find a charity practice there. Thus, the process of charity giving, as it is seen by the leaders, has a high level of costs and no profit, which, as it was highlighted above, contradicts principals of market. How to change this and make charity practice valuable by companies is an important issue for economic theory.

Keywords: charity, corporative charity, social responsibility, transitive economy.

Method
Since the article deals with the initial stage of research, which implies highlighting core challenges of charity practice in today’s economy, we did not use any specific methods of statistical or mathematic analysis but employed general scientific methods of critical thinking process. The baseline for research is the charity practice of Ukrainian companies as Ukraine economy is ongoing transitive changes and reforms. Therefore, to find out main groups of companies dependent on the extent of charity activity, we used a method of consistent analysis and further systematization. To dig deeper into features of accounting operations regarding charity, we examined a balance sheet and an income statement report of a typical Ukrainian company.

Results
The first issue of charity practice in Ukraine is the lack of coefficients which can be used to evaluate charity result for charitable organizations. Increasing market value of a company committed to charity, its improving position in the rankings on financial and economic development are relevant to the case if the company has a public form of ownership, is preparing for being sold, meets a number of financial indicators and indicators of scale to participate in the process of rating. Otherwise, the implementation of charity practice throughout the company’s plans and operations now requires incurring additional costs and cuttings of net profit. In this case, the alternative cost calculated as the effect from other possible projects, which could have been implemented if these costs would have been incurred for other projects, may exceed the resulting non-economic social effect of giving practice estimated by experts with vague estimates. All this increases the risk that a company will refuse to be charitable. Therefore, the conceptual platform of the charity development of companies must be integrated into the free market model so that a company may be profitable and follow the principles of economic, social and environmental responsibility.

Companies that have a clear strategy for charitable activities work with several trusted partners in this area and consider requests only from those organizations that are fully consistent with the corporate philosophy and ideology of the company. Among these companies are mostly representatives of foreign companies in Ukraine (“Coca- Cola Beverages Ukraine”, “Ukraine BAT”, “Microsoft Ukraine”, “Siemens Ukraine” etc.). They are mostly guided by the general principles that have been developed in the parent
company for all companies included into the holding. Sometimes stringent procedures may be weakened but in any case, the decision to help in such multinational corporations is not taken by a regional hub. Among Ukrainian companies which are governed by a strategic approaches to charity are the following: Group “System Capital Management”, “Arterium”, “Foxtrot”, “Company XXI century”, “Kyivstar”, and etc.

The second types of companies that provide charitable help are those that have no long-term strategy and that do not follow strict procedures. They all depend on the specific query. The decision to adopt a charity practice is made by organization senior management or marketing department. People are guided more by compassion than formalized procedures. It should also be noted that the areas of charitable activity are quite diverse. The most common ones are: social, science and education, culture and arts, sports, environment.

Finally, the third type consists of companies that do not provide charity care. There are several reasons for their doing so: low income home business, a very negative image of the Ukrainian business that ruined its reputation due to misuse of charitable donations in the past, imperfect tax legislation, the lack of any incentives from the state and so on (Fig.1).

However, as experience shows, charity and its size depend not only on the financial performance of companies. Ukrainian business persons still do not feel the need to practice charity. In other words, many Ukrainian business organizations and institutions do not have a culture of philanthropy. Those companies that provide philanthropy in Ukraine are still stimulated by means of different ways: by promoting through the media or awarding individuals who have made significant contributions to charity with specially issued state awards.

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<th>COMPANIES THAT PROVIDE CHARITY AND VOLUNTARY HELP TO OTHER ORGANIZATIONS</th>
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<td>Companies permanently committed to the charity practice</td>
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*Fig. 1 Types of companies involved into charity practice

Source: developed by authors

Despite the fact that today we have no complete understanding of the feasibility of charity work among domestic business companies, charities and charity have become an integral part of many companies that support the Ukrainian science, culture, sports, health, and participate in other important social programs. The most popular local and regional social projects are reduced to support public institutions (hospitals, schools, orphanages, kindergartens, and etc.). Most of the aid is in the form of financial contributions, but a significant proportion of charity care also includes contributions in terms of products and services provided by companies. For companies that provide charity and sponsorship, it is important that a request for charity would be consistent with the corporate goals, the purpose of the project would be clear, transparent financial reporting would show who will benefit from a charity project.

In practice, the implementation of charitable programs leads to a complex effect, which includes the social effect (to solve social problems and force positive changes in society), the moral effect (to get pleasure from the gift), the economic impact or effect of the business (business value added).

The main visible effect of charity is strengthening friendly relations and strengthening company’s relationships with its stakeholders: customers, suppliers, investors, employees, local communities and others. A great image of a charitable organization is a kind of indicator of the company’s success which demonstrates its sustainability and positive attitude of investors that do not worry about the future of their investments. Charity is also the factor that positively affects the economic performance of the company. Understanding this fact and the proper formation of philanthropic strategy is an important tool of corporate governance. Awareness of charity, as an additional resource for business development, leads to an increase in the number of companies interested in society and, consequently, increase in investments purred by business in the social sphere. Participation in socially significant events with providing a variety of benefits and other measures contribute to the development of civil society and improving the welfare of citizens.
Analyze the existing basis of a charity practice taken by companies in order to identify the factors that have most influence on the way in which charity and philanthropy are characterized – that is, what they are by nature: permanent, random or none (see Fig. 1).

In Ukraine, a special economic mechanism of charity practice set out in a typical company committed to charity in accordance with the concept of this study, which would be based on market principles of profitable enterprise, has not been yet developed.

If we consider the need of other economic stakeholders’ interest being met by a company – that is, interests of the territorial community and local government - as a kind of payment for the loan granted by them to the company in the form of resources, it is not clear why this enterprise should compromise its economic interests for which it was established.

In our view, a mechanism for providing charitable assistance to enterprises to implement environmental and social programs in the region is not sufficiently effective because it rather focuses on the interests of the state (enterprises do not reduce the volume of payments to the state budget through the charity) and the interests of the recipient (legislated mechanism for obtaining financial assistance from businesses). However, in practice most satisfied interests are those of the state because enterprise either do not provide a charitable assistance or does but in very small volumes which are not sufficient to solve the existing social and environmental problems and achieve integrated charity practice.

Thus, taking into consideration current economic basis for charity practice provided by an enterprise, we can identify, in our opinion, two main organizational and economic factors that at this stage are the greatest prevention from permanent or random charity practice of enterprises.

One of the negative economic factors is the factor that can be thought of as payments which a company should provide for practicing charity and integrating into the external environment. These payments are in terms of charity contributions or expenses. Charitable contributions paid out of net profits and the costs are included in the production cost. This leads to the fact that reduced financial base of the company in the reporting period early shaped for expanded reproduction is strongly reduced. Perhaps, a company will need to make borrowing to maintain its operations. Therefore, a company will bear in this connection additional financial costs because the part of profit directed to charity could be used to invest in new technologies including energy saving, waste treatment and etc. Thus, costs to address environmental and social problems in the region should be included in production costs. In turn, it leads to higher prices and their negative impact on the company’s market share.

Negative organizational factors relative to charity practice of enterprises could be reduced to a company’s nonstructural production depending on the natural resources, particularly, on non-renewable natural resources. Although, according to some estimates deposits of coal in Ukraine or in Angola are expected to be sufficient for an average period of 50 - 100 years, if you follow the principles of taking care of future generations in charity practice, it can be argued that we need to take measures now to prolong the life cycle of some companies and prevent social and economic shocks after their closure.

Thus, charitable deductions for charity practice of the enterprise lead to direct losses of profit, not received potential profit from other activities and missed economic opportunities, more expensive products, limited life cycle of the enterprise and loss of its investment attractiveness especially for foreign investors. Under conditions of restructuring some industries in Ukraine, we can observe an increasing risk that some companies will be closed. Foreign investors consider projects related to alternative energy sources and the introduction of “green” technology to obtain benefits under the Kyoto Protocol. For example, coal mine can implement a project of getting energy from the use of methane gas along with coal mining. For diamond mine, it may be a project for the use of groundwater having a certain temperature, and etc. Each individual company requires a specific analysis and evaluation for possible use of the existing resource potential and the property complex. Under the negative influence of these factors, a company cannot provide its permanent or random charity practice, and thus, cannot get the main benefits of charity practice: keep or earn extra income and extend the life cycle. In this connection, it is necessary to substantiate the approach to charity practice that would allow fully or partially mitigating the negative impact of these factors.

Discussion

In examining the economic basis for charity practice of Ukrainian companies, organizational and economic factors of a negative impact on the efficiency and effectiveness of charity development of enterprises were established. They are the limiting factor of existing mechanism for providing charitable help
to tackle social problems in the region and the factor of a company’s nonstructural activity. These factors lead to a direct loss of profit, missed opportunities for additional revenue, increase in the cost of production, and a limited life span of the enterprise. These factors could be disputable as they are explained with the current legislation of Ukraine and Angola. In turn, if we have a look at a charity practice of highly developed countries, we will find it widespread and popular among companies and organizations.

The most debatable issue is still lack of clear measure tools to assess the extent of effect a company can gain by means of charity practice.

References