IT FINANCING: OPPORTUNITIES AND RISKS

The article is about the theoretical and methodological aspects of the financing of the IT. It has been grounded the author's approach to the definition of "IT investment". The interpretation is that all financing components give opportunity for effective management information systems. It has been proved that the funding of IT makes more benefits than other types of financing the branches of economy. Without IT does not exist any possible financial market nor any industry.

It was found that the main types of IT financing are their own funds, loans, Seeds financing (Seed Capital, SC), venture capital (VC), private investors, strategic funding, equity. The analysis made it possible to conclude that the financing risks of IT can be divided into technological and financial. Technological risks are the risks associated with the ability of integrating decision «correctly imposed» on the existing infrastructure and information flows. The «reduction» of investment in time and splitting projects into several interchangeable components helps minimize technological risks. Financial risks arise due to worsening business performance as a result of incorrectly selected IT strategy or as a result of poor implementation. It has been determined the application of systems analysis of techniques advantages and disadvantages of the known methods of financing with the characteristics of IT should increase the degree of validity of decisions concerning the use of a particular method or their combinations.

Keywords: IT funding, types of IT financing, risks of IT financing, sources of financing.

Introduction. Modern economic development is characterized by the globalization of business and information technologies. Along with the competition on the world markets of goods, services and capital rightly note the competition within the country which can only win due to the widespread use of IT and state support of these efforts.

Financing IT makes a lot more benefits than financing other areas and other industries. World experience shows that it is beneficial for business organizations and society. Moreover the financial market and any industry can not exist without IT.

Analysis of recent research and publications. The problems of financing IT are reflected in scientific works of local and foreign scientists [1–10] and others.

Setting objectives. Despite significant scientific achievements the creation of conditions in the Ukraine to enhance IT business including the IT financing to increase their share in the national GDP require further study.

With this in mind, the purpose of the article is a systematic analysis of the characteristics, problems and major trends in IT financing which should allow to substantiate and choose effective strategies and methods of financing.

Presenting main material. IT investments in a broad sense are any costs of IT-department: the purchase of computers, licenses and maintenance of networks. Early IT investments have been considered as investments in equipment, its maintenance and basic technology. Further IT investments began to be associated with the costs aiming at the acquisition of new telecommunicato...
In our view a better definition of «IT investment» is the interpretation that this funding all the components that enable effective management information systems.

The main types of IT financing are own funds, loans, Seeds financing (Seed Capital, SC), venture capital (VC), private investors, strategic funding, equity.

The most profitable for any company is the IT funding at their own expense. In such case money can be obtained without interest, execution of multiple documents is not required, and the speed of money in this case is significant. The main advantage of this approach is the speed and the possibility of getting money to spend them quite freely (unlike, for example, money from venture capital funds and private equity funds). The disadvantages are associated with small size of such investments and the absence of external expertise and consultative support. Own funds of companies or founders in many cases are the main source of funding for new IT projects.

A common type of financing IT is using credit. Often it is used to finance IT-project at the point of first sale. In transition countries usually it is not possible to open a credit line without real estate collateral. This method is suited for IT companies that have a certain material base. Companies can rely on loans as the basis for security and without security if the company already has a good credit rating. In this case the interest rate can be reduced as a result of negotiations. Considering requests and documentation is significant and can be reduced only if the refund guarantor (surety or collateral). The innovative nature of IT areas narrows the scope of debt financing.

Also it is used the type of IT financing as funding Seeds (Seed Capital, SC). Typically the amount of this way of raising funds is $150–200 thousands. Seeds financing is cared by community of private investors and venture capital funds. The goal is to start a team that has created a prototype with high market potential but with little success story. It is considered that the capital should be used to bring a product to prototype industrial, networking with distributors and the development of operational plan to market. Most private investors are successful entrepreneurs and take the lead in operations, helping the rapid development and preparation for the round of venture financing.

There is also a venture capital (Venture Capital, VC). It means providing funds for the long term to young companies that are at an early stage of development, in exchange for a share in these companies. Venture capital is a financial innovation infrastructure element that unites media capital and media technologies. It solves the problem of failure in the financial sector starting innovative projects. Through venture capital have been created such companies as Intel, Microsoft, Google and others. Venture investors demand to protect their investments from further erosion shares and control rights when making important decisions, but have very good connections to potential customers and partners, useful for the development of the project. In the field of IT venture capital investors typically finance business projects that are in «strong» market niche (Web 2.0, social networks), belong to high-tech niche (information processing algorithms, cryptotechnologies).

The strategic funding is used in the above mentioned area. Strategic investor usually is interesting in acquiring a major stake in order to participate in the management or gain control over the company. Strategic investor who has acquired a stake in the company and has financed its development program, expects that this share will bring him a steady income for time spent as a shareholder or give certain strategic advantages for new markets. For such investor is important to participate in the management of the
company and he needs mainly share amounting to at least blocking stake (but usually not more than a controlling stake). Advantages of this type of fundraising are a significant investment, expert assistance, facilitating the rapid entry into the market. Disadvantage is long process of obtaining funds sometimes slows down operating decision maker.

The share capital is interesting way of IT financing. The main way to attract such capital is public offering IPO (Initial Public Offering). This way of financing does not meet the SMEs, particularly in the early stages of development. The company which decides to raise the share capital shall occupy a strong position in the market (preferably lead in the segment), have good growth prospects, transparent financial reporting and information openness. The development strategy of the organization should be well thought out. The company managers should be prepared for a partial loss of control over the enterprise. Advantages and disadvantages of this type of financing are: the advantages are large funds, strengthening the company's reputation; disadvantages are very long and laborious process of getting money, raised funds rather expensive cost to companies, it is the need for large volume publication of inside information.

There are also other sources of funding. They should be used in the opening stage for avoiding sharing stake in the company if other ways of financing have been exhausted. These include government incentives (grants, tax preferences, sowing investment through public funds); specialized centers (business incubators); program support (grants, programs leading IT companies - for example, Microsoft, business plan competition, commercial partnership, motivation program developers).

Consider the structure of the most common sources of IT funding:
1. Own funds (33%);
2. External funding of manufacturers (captive finance) (29%);
3. External financing of local banks (22%);
4. External financing of foreign banks (11%);
5. Independent sources of financing (5%).

So while IT financing for its own account is popular (especially among multinational corporations) most companies attract funding from external sources. Captive financing occupies a leading position, i.e. funding provided by vendors.

Such captive company opens more opportunities for the vendor. 85% respondents who were examined by Forrester analysts pointed that the opportunity to finance due to the technological vendor was the important positive factor in the decision to acquire IT. These financial products by technology vendor must be competitive. The study participants consider that the total cost of ownership solution (Total cost of ownership, TCO) is the most important factor for assessment IT financing.

Financing for any type of business is accompanied by certain risks. IT financing not devoid of risks. Last divided into two groups:
- Technological risks. They are associated with the ability of integrating decision «correctly imposed» on the existing infrastructure and information flows. The “reduction” of investment in time and splitting projects into several interchangeable components helps minimize technological risks
- Financial risks arise due to worsening business performance as a result of incorrectly selected IT strategy or as a result of poor implementation. If we consider the question of responsibility for investment risk within the enterprise the head of IT department must
be part of the Board of Directors. Also the IT solutions should be correlated with the overall business strategy of the company.

Conclusions.

It has been found that the main types of IT financing are their own funds, loans, Seeds financing (Seed Capital, SC), venture capital (VC), private investors, strategic funding, equity.

It has been proved that IT financing is a quite profitable type of business and has huge prospects. It is not deprived of certain risks which are divided into technological and financial ones. The application of systems analysis of techniques advantages and disadvantages of the known methods of financing with the IT characteristics should increase the degree of validity of decisions concerning the use of a particular method or their combinations.