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Risk Disclosure as a Way to Increase the Informative Value of Corporate Reporting for Stakeholders

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Abstract. The article is devoted to the study of risk as a category of accounting and reporting and substantiation of directions for comprehensive disclosure of risks in order to increase the informative value of corporate reporting for stakeholders. The article shows the development of approaches to the definition of risk and provides an updated definition of risk in accordance with modern concepts. A classification of risks is proposed in the context of the concept of multiple capitals and the concept of sustainable development, which is relevant to the task of adequate disclosure of information about risks. It is demonstrated that the modern legal regulation of accounting, standards and guidelines in the field of corporate reporting assigns an important role to risks. Based on an empirical study, the recommended limits for the disclosure of information about risks by organizations in the framework of ensuring the transparency of reporting are determined. The factors stimulating economic entities to disclose information on the risks of sustainable development in corporate reporting are considered. An assessment is made of the impact of digital tools and technologies on the ability to predict, assess and disclose risks in corporate reporting, as well as on the effectiveness of decisions of organizations' stakeholders.

Keywords: risk classification, ESG risks, risk disclosure, corporate reporting.

1. Introduction

The process of making business decisions by economic entities and their stakeholders is closely related to risk. This is especially true for strategic decisions, since they are characterized by high uncertainty and a long-term planning horizon, require significant investments of various resources, and therefore are associated with large-scale potential consequences of the implementation of such decisions.

Modern realities cause the actualization of known and the emergence of new risks that require study, comprehensive assessment and regular monitoring in terms of consequences for both a particular organization and its stakeholders. Along with the aggravation of economic risks, including market, financial, operational risks, there is an increase in the importance of environmental, social risks and governance risks. Climate risks are coming to the fore and are becoming a powerful factor in business decision-making at all levels.

In the context of increasing the role of risk management in cost management, there is a need for transparency in corporate reporting regarding the reflection of information about risks. However, the question of the essence of risk remains debatable to date, a generally accepted classification of risks of organizations' activities has not been developed, and unified approaches to their disclosure in corporate reporting have not been formed. In turn, this is reflected in the weak integration of risks into the decision-making process by stakeholders. In this regard, it becomes important to develop approaches to the disclosure of risks in corporate

reporting, assessment and integration of risks into the decision-making process in order to ensure their effectiveness.

The purpose of this article is to study risk as a category of accounting and reporting and substantiate the directions for comprehensive disclosure of risks as a factor in increasing the informative value of corporate reporting for stakeholders.

2. Literature Review

The issue of risk disclosure in corporate reporting is in the focus of attention of the scientific community, practitioners, corporations, regulators and public organizations.

Aspects of risk assessment and risk management of organizations are currently one of the most relevant and widely discussed in the professional environment.

Various approaches to the classification of business risks are presented in the works of Damodaran A. [1], Crouhy M. [2], Pike R. [3], Blank I.A. [4], Kogdenko V.G. [5].

The publications by Efimova O.V. [6], Rozhnova O.V. [7], Zenkina I.V. [8] are devoted to the issues of risk disclosure in the financial and non-financial reporting of organizations in the interests of stakeholders in order to increase the validity of their decisions.

A wide range of researchers such as Bauer R., Khan D. [9], Goss A., Roberts G. S. [10], Attig N., Gul S. E., Gedami O., Su D. [11], Chava S. [12], Giraporn P., Giraporn N., Beprasert A., Chang K. [13], Zenkina I.V. [14] examines sustainability risks and demonstrates the correlation between ESG risks and financial performance of an organization.

3. Methodology

The concept of risk in modern economic literature is characterized by a wide range of definitions.

According to ISO 31000 Risk Management (2018) [15], risk is "the effect of uncertainty on objectives". Impact refers to the deviation of an outcome from an expected outcome and can be "positive, negative, or both, and may relate to, create, or lead to opportunities and threats".

The Institute of Internal Auditors, the world's leading standards body for internal auditing, defines risk as "the uncertainty of an ongoing event that could affect the achievement of objectives".

According to the Business Analysis Body of Knowledge (BABOK), recognized worldwide as a professional standard, risk is the impact of uncertainty on the value of changes implemented in an organization, decisions being implemented, or on the organization itself [16].

The COSO Enterprise Risk Management (ERM) Framework defines risk as the likelihood of occurrence of events that can have an impact on the achievement of strategic and business objectives [17].

It is important to note the ongoing gradual transformation of the traditional approach to defining risk as "the likelihood that an event will occur and adversely affect the achievement of the mission and business goals of the organization". Its reasonable alternative is the approach based on the understanding of risk as "a measure of an organization's exposure to losses at the level of uncertainty" [18]. The main difference between these approaches is that from the traditional point of view, the maximum risk occurs with the highest probability of losses, and from the modern point of view, the maximum risk corresponds to the most significant degree of negative consequences, even with an insignificant probability of their occurrence.

Based on advanced approaches in the field of risk management and taking into account the high relevance of the sustainable development agenda, the concept of risk can be clarified as the degree of an organization's exposure to the consequences of the occurrence of events that can affect the implementation of the strategy, the achievement of business goals and sustainable development goals, the ability to create value over time.

Risk management is usually associated with the management function and the organizational units that implement it. However, its principles are applied in the implementation of all functions and at all levels of management, and the content is not limited to the identification of relevant risks of the organization's activities and involves the active management of them.

According to the COSO ERM Framework, risk management is an integrated system that includes the culture, competencies and practices associated with the strategy setting and performance management process that an organization relies on to create, maintain and increase value.

The COSO ERM Framework contains 5 components and 20 principles grouped according to them (Table 1).

Table 1. Risk Management Principles

Governance & Culture	Strategy & Performance Objective-Setting	Performance	Review & Revision	Information, communication and reporting
1. Exercises Board Risk Oversight 2. Establishes Operating Structures 3. Defines Desired Culture 4. Demonstrates Commitment to Core Values 5. Attracts, Develops, and Retains Capable Individuals	6. Analyzes Business Context 7. Defines Risk Appetite 8. Evaluates Alternative Strategies 9. Formulates Business Objectives	10. Identifies Risk 11. Assesses Severity of Risk 12. Prioritizes Risks 13. Implements Risk Responses 14. Develops Portfolio View	15. Assesses Substantial Change 16. Reviews Risk and Performance 17. Pursues improvement in Enterprise Risk Management	18. Leverages Information and Technology 19. Communicates Risk Information 20. Reports on Risk, Culture, and Performance

Source: Authoring based on COSO ERM [17]

The principles related to the "Governance and Culture" component form the overall framework for risk management. The principles associated with the components "Strategy and Performance Objective-Setting", "Performance", "Review and Revision" directly determine the procedure for analyzing, assessing risks and making management decisions based on them. The principles relating to the "Information, Communication and Reporting" component indicate the importance of ensuring the transparency of information about risks and reflect the main directions of relevant activities within the framework of risk management.

Most of the principles of the risk management concept directly affect the processes of identifying, analyzing, assessing risks and disclosing information about risks in corporate reporting in the interests of stakeholders (Table 2).

Table 2. The content of the key principles of risk management, regulating the analysis and disclosure of information about risks

Principle	Key characteristics
Analyzes Business Context	An organization should consider the external and internal business environment in the process of developing a strategy to realize its mission, vision and core values. The impact of business conditions on the risk profile can be assessed in the context of past, current and future events.
Defines Risk Appetite	Decisions related to the choice of strategy and the justification of risk appetite are not connected by linear relationships, when one of them precedes the other. Approaches to identifying risk appetite are chosen by organizations based on the characteristics of their activities. The best approach is to define risk appetite in the context of risk profile and risk capacity.
Evaluates Alternative Strategies	An organization should analyze alternative strategies, assess the risks and opportunities of each option. When choosing a development strategy, the management of an economic entity should take into account the risk profile and risk appetite.
Formulates Business Objectives	Objectives are defined at various levels, but should correlate with the overall strategy of the organization. At the same time, the degree of efficiency in achieving goals is determined by the boundaries of acceptable deviations from the goals set.
Identifies Risk	An organization should identify the risks associated with the implementation of the strategy, the achievement of business and sustainability goals. In this regard, it is necessary to form a consolidated list of risks and subsequently determine which risks are relevant. Risks can be structured into separate categories, which the organization determines at its discretion. At the same time, risks should be determined at the level of all business processes and business functions.
Assesses Severity of Risk	Risks are assessed in terms of impact and likelihood. The probability of a risk can be expressed by an expert assessment, a quantitative assessment and the frequency of the risk. The description of the risk includes the analysis of its factors and consequences based on quantitative and qualitative approaches. A risk map is used as a tool for graphical visualization of risk materiality.
Prioritizes Risks	An organization should identify the most significant risks in order to select an adequate strategy and rational allocation of resources within the framework of risk management. Risk prioritization is determined according to certain criteria, such as risk adaptability, risk complexity, risk impact strength, risk impact sustainability, and recovery speed after risk realization.
Implements Risk	Justification of the strategy involves taking into account business conditions, established goals, risk prioritization, risk appetite and risk materiality. The choice is based on five main risk management strategies, including:

	acceptance, avoidance, transference, mitigation and exploitation. In cases where the level of risk is too high and the risk response strategy is unacceptable, the organization should review its strategic and operational objectives.
Develops Portfolio View	An organization should determine how the organization's residual risk profile matches its risk appetite. In this regard, there are several approaches to portfolio risk analysis depending on the degree of integration of risk management with business management: <ul style="list-style-type: none"> - minimal integration (focus on significant risks) - the organization identifies and evaluates discrete risks. Focus on significant risk events; - limited integration (focus on risk categories) - the organization forms a structured risk database. The risk portfolio represents a list of risks grouped into categories; - partial integration (focus on the risk profile) - the organization shifts the focus to business goals and the risks associated with their achievement; - full integration (comprehensive view of risks) - the organization focuses on strategy, business goals and sustainable development goals. Risks are identified at all levels of decision making.
Assesses Substantial Change	An organization needs to monitor changes in ongoing operations and assess their impact on business strategy and risk profile.
Reviews Risk and Performance	The principle lies in the need to conduct a risk analysis within the framework of business analysis and its system integration into the management of the organization's activities. The key issues for risk and performance analysis are: <ul style="list-style-type: none"> - What are the risks and how they can affect the efficiency of the organization? - What is the level of risks and how are they assessed? - How adequate are the levels of key risks to achieve the objectives of the organization? - Has the organization achieved its objectives with the expected performance?
Pursues improvement in Enterprise Risk Management	An organization should strive to continually improve the effectiveness of risk management at all levels.
Reports on Risk, Culture, and Performance	An organization needs to disclose information about risks in corporate reporting.

Source: Authoring based on COSO ERM [17]

Of particular note is the "Reports on Risk, Culture, and Performance" principle, according to which economic entities need to disclose information about risks in corporate financial and non-financial reporting.

This principle closely correlates with the Global Management Accounting Principles, which include the principle of communication, the principle of using relevant information, the principle of analyzing the influence of various factors on the value of the company, and the principle of management based on trust. This is due to the critical role of management accounting in generating data, including information on business risks, for the preparation of integrated reporting in order to meet the information needs of stakeholders.

The modern legal regulation of accounting, existing standards and guidelines in the field of corporate reporting assign a significant role to risks.

In particular, the procedure for disclosing information about risks in the financial statements of economic entities is given in IFRS 7 "Financial Instruments: Information Disclosure", document of the Ministry of Finance of Russia No. PZ-9/2021 "On Disclosure of Risks of an Organization's Business Activities in Annual Financial Statements".

It should also be noted that the Bank of Russia has developed recommendations on the disclosure by public joint-stock companies of non-financial information related to the activities of such companies [19]. These recommendations provide a framework for boards to consider ESG factors and related risks and opportunities, as well as sustainability issues, to create long-term value. They can be used depending on the scale and specifics of the organization's activities, the implemented corporate practices and business processes, the speed and depth of ongoing changes related to sustainable development issues in various industries.

In this regard, it is difficult not to agree with the opinion of O.V. Efimova, who believes that reporting can become a tool for creating a reputation as an informationally transparent company only if these reports provide complete and reliable information not only about its financial position, results obtained, ability to generate cash flows, but also about existing risks of activity [6].

4. Results

For high-quality disclosure of information about risks in corporate reporting, first of all, a classification of the risks of the organization's activities that meets modern ideas is needed.

In this respect, on the basis of the classifications presented in the works of Damodaran A. [1], Crouhy M. [2], Pike R. [3], Blank I.A. [4], Kogdenko V.G. [5], and an empirical study of the practice of disclosing information about risks in corporate reporting, it seems informative and analytically valuable to disclose the following list of risks (Fig. 1).



Fig. 1. Classification of risks to be disclosed in corporate reporting
 Source: Compiled by the author

1. Systematic or external risks affecting all economic entities:

- *Country risks* - risks caused by the economic, political and social conditions of the countries in which the organization operates;
- *Regional risks* - risks associated with the economic, political and social conditions of individual administrative or geographical regions;
- *Industry risks* - risks specific to a certain type of activity, reflecting the probability of losses of the organization due to changes in the economic state of the industry, depending on the degree of changes both within the industry and in comparison with other industries;
- *Market risks* - risks of unfavorable changes in the price environment and demand in the goods and services market, unfavorable dynamics of exchange rates and interest rates in the financial market;
- *Legal risks* - risks associated with changes in currency and customs regulations, tax legislation;
- *Regulatory risks* - risks related to non-compliance by organizations with existing rules and regulations, in particular, aggravated in a pandemic amid quarantine restrictions;
- *Technological risks* - risks that are caused by the development of technologies and the possibility of losing consumers due to a decrease in competitiveness.
- *Other risks* - the risk of developing an unfavorable epidemiological situation, military operations, etc.

Systematic risks associated with the external business environment of organizations are undoubtedly important for assessing the long-term sustainability of an economic entity in the framework of stakeholder decision-making. However, the

priorities for stakeholders in terms of determining the prospects for interaction are specific risks or risks of the internal business environment that affect a particular organization. According to A. Damodaran, specific risk factors are the source of 75-80% of the risk to which a publicly traded company is exposed [1].

In this connection, special attention should be paid to the identification, analysis, assessment, monitoring and reporting of risks specific to a particular economic entity.

2. Specific risks or risks of the internal business environment, cover:

1) Risks associated with capital, that is, the business resources that the organization has (**Capital risks**).

2) Risks due to the organization's business model (Business model risks).

3) Risks of sustainable development (ESG risks).

Capital risks are risks due to the availability, quality and accessibility of financial, industrial, intellectual, human, social and relationship, natural capitals, determined by the probability of loss or decrease in the value of capital in the short, medium and long term, as well as characterized by indicators of the organization's impact on capital. Due to the fact that financial capital is a source of formation of all other types of tangible and intangible capital of an organization, financial risks occupy a central place in this group of risks.

According to the fair statement of V.G. Kogdenko, "the company's risk management system should be aimed at protecting the most valuable capital, the list of which is determined by the International Framework for Integrated Reporting" [5].

Financial risks are risks of inefficient use of financial capital, decrease in financial stability, performance and investment attractiveness of the organization, including:

- *The risk of limited access to capital* - the risk associated with the company's inability to accumulate equity and debt capital in sufficient volume and on acceptable terms;
- *Credit risk* – the risk of counterparties failing to fulfill their debt obligations in full and on time;
- *Liquidity risk* – the risk that an organization will not have sufficient funds to meet its financial obligations.

Financial risks may also include *investment risks*, as well as *tax risks*.

Business model risks cover the following groups of risks depending on the decision-making area:

- *Strategic risks* - risks associated with the development and justification of the organization's strategy, which are decisive for other risks, since the organization's activities and the risks arising from its implementation depend on the choice of business strategy.
- *Operational risks* - the risks of losses due to inconsistencies or errors in business processes, employee actions, systems or as a result of external events, including:
 - *Risks of internal business processes* - risks of reducing the efficiency of operating activities;
 - *Supply chain risk* - the risk of reducing the efficiency of supply chains, in particular, reducing the reliability, response and flexibility of the supply chain, increasing costs and reducing the efficiency of asset management in the supply chain, resulting in financial losses for the organization;
 - *Personnel risks* - risks associated with the lack of required personnel, insufficient qualifications of personnel, low involvement and loyalty of employees, as well as exceeding official powers by personnel, including corporate fraud, corruption and other offenses.

Sustainability risks (ESG risks) are risks caused by organizations' non-compliance with existing rules, rules and principles regarding ESG efficiency, which

may affect the performance of the company and its stakeholders, lead to negative legal, environmental, social and economic consequences, including:

- *Environmental risks* – risks associated with the impact of the organization's activities on the environment, including physical and transitional climatic risks;
- *Social risks* - risks related to the impact of the organization's activities on the social sphere, including the observance of human rights;
- *Governance risks* - risks of deterioration in the perception by stakeholders of the reliability and business attractiveness of the organization [8].

Given the importance of a comprehensive reflection of risks, sustainable development risks should occupy a special place in corporate reporting, which is due to the recognition at the international level of the crucial role of taking into account sustainable development factors in assessing the activities of economic entities and making investment decisions [14]. This was the reason for including this group of risks in the proposed classification.

As Sergey Shvetsov, First Deputy Chairman of the Bank of Russia, notes "an assessment of these risks is necessary, among other things, because over time they can transform into financial risks, and their disclosure may become a requirement in the near future, as soon as uniform international standards for non-financial indicators appear" [20].

In accordance with modern concepts, economic entities should strive to achieve a balance of economic efficiency, environmental responsibility, social responsibility and management efficiency, as well as ensure the transparency of corporate reporting regarding the disclosure of information on sustainable development and the risks of implementing the organization's strategy.

The current trend is the integration of sustainable development risks into the process of substantiating and making investment decisions, called ESG integration. Investors are interested in minimizing ESG risks as indicators of responsible business practices due to their significant impact on financial performance and, in general, on the viability of the business and the effectiveness of investment projects.

At the same time, it should be emphasized that it was the urgent need of the investment community for an expanded framework for disclosing information about financial and non-financial drivers of value creation and the risks associated with them that served as the main incentive for the creation and global promotion of the concept of integrated reporting.

According to the International Integrated Reporting Framework, the main elements of the content of an integrated report that are fundamentally related to each other and are not mutually exclusive include:

1. Organizational overview and external environment.
2. Governance.
3. Business model.
4. Risks and opportunities.
5. Strategy and resource allocation.
6. Performance.
7. Outlook.
8. Basis of preparation and presentation.

The <IR> Framework give an important place to risks in the process of value creation, preservation or erosion.

The "Risks and Opportunities" element is prioritized for the informative and analytical value of integrated reporting, especially as in the revised <IR> Framework (January 2021) value creation, which is the central concept of this reporting format, includes cases of preservation and erosion of value.

The "Risks and Opportunities" element requires disclosure in the integrated report of information about the risks and opportunities that affect the organization's

ability to create value in the short, medium and long term, as well as how the organization manages them. In particular, the report may include the following information:

- key risks and opportunities inherent in the organization related to the impact of the organization on the financial, industrial, intellectual, human, social and relationship, natural capitals and with the further availability, quality and accessibility of relevant capitals;
- a specific source of risks and opportunities (internal, external or combined);
- assessment of the probability of occurrence of risks or the extent of their impact in case of realization;
- actions taken to mitigate or manage key risks and to create value from key opportunities, including an indication of their associated strategic objectives, strategies, policies, targets and key performance indicators;
- the organization's approach to any real risks in the short, medium and long term that are of paramount importance to maintaining the organization's ability to create value and that can have very serious consequences, even if the probability of their occurrence can be considered quite low.

However, in addition to an entity that reports in accordance with financial reporting requirements, risks, opportunities, and performance outcomes arising from or associated with other entities/stakeholders that are not part of the reporting entity but that have a significant impact on its ability to generate value, relate to key aspects that define the perimeter of the integrated report, that is, the boundaries within which factors are considered relevant for their inclusion in the organization's integrated report.

Thus, although there are opportunities for disclosing information about risks in financial and non-financial reporting, today it is the integrated report as an advanced corporate reporting format that provides the most adequate level of risk disclosure and, therefore, has the greatest informative value for interested users.

Despite the revision of the <IR> Framework carried out in January 2021, their updating is superficial and did not introduce significant changes into the previous version of the document, adopted in December 2013. At the same time, economic entities require clearer guidance regarding the preparation of an integrated report and the disclosure of material information in it, including information about risks.

The lack of detailed, understandable and specific recommendations regarding information on risks to be reflected in corporate reporting causes a widespread problem of insufficient completeness and quality of disclosure of such information by organizations. According to O.V. Rozhnova, information about risks in the reporting space is usually difficult to trace, it is almost impossible to understand what happened to the risks noted earlier, whether the measures taken to level them were effective, how the risks of this company correlate with the risks of competitors, partners, creditors and investors [7].

An empirical study of the best practices of more than 30 Russian organizations that are leaders in the field of transparency of corporate reporting, such as Gazprom, Norilsk Nickel, Rosatom, using data from the Russian Union of Industrialists and Entrepreneurs [21], allows us to recommend the wide dissemination of best practices in corporations and the inclusion of the following risk data in their reporting.

1. Processes of the risk management system:

- risk identification;
- risk assessment;
- risk management;
- risk monitoring.

2. Organizational model of the risk management system:

- strategic, tactical, operational levels of risk management;

- organizational and methodological support of the risk management system at the level of the corporation and departments;
- risk owners - management bodies responsible for risk management;
- internal control bodies of the risk management system.

3. Key risk indicators:

- a list of systematic and specific risks relevant to the activities of the organization;
- assessment of the level of key risks.

A risk radar can serve as an analytically valuable tool for reflecting information about the key indicators of corporate risks in an integrated report.

4. Correlation of key risks with the strategic goals of the organization - a reflection of the strategic goals that are affected by the corresponding risks.

5. Risk management practices:

- approaches to risk assessment and risk management;
- results of risk management;
- dynamics of risks, including options for increasing, decreasing and maintaining a stable level.

The perimeter of the integrated report, necessary for the adoption of balanced and comprehensively justified management decisions by stakeholders, involves the disclosure of information about the organization's risk management practices.

Along with the above aspects of the risk management system (RMS), corporations are encouraged to disclose in an integrated report the use of digital risk assessment and management technologies as an indicator of the digitalization of the RMS.

The current digital transformation of business provides new ways to solve problems, create a unique experience of interaction with customers and employees, and accelerate business efficiency. The digitalization of risk management has a positive impact on the quality of decisions made by stakeholders.

The high level of digital transformation of risk management, including the functions of accounting, reporting and analysis, implies, first of all, that the employees of the organization have advanced digital skills and competencies, as well as the orientation of the risk management process towards the active use of big data, digital tools and technologies. Due to the digitalization of risk management, forecasting capabilities are expanding, the accuracy of risk assessment and the quality of risk disclosure in corporate reporting are increasing, and, consequently, the effectiveness of strategic and tactical decisions made by stakeholders of organizations is achieved.

5. Conclusion

Thus, being a traditional economic and statistical category, risk is currently being actively developed as an accounting category, becoming a full-fledged object of corporate reporting, in which investors as key stakeholders and other stakeholders of the organization are interested.

In this regard, modern corporate reporting, the advanced format of which is integrated reporting, demonstrates the relationship between the strategy, the business goals defined by it and the goals in the field of sustainable development and should comprehensively reflect the risks and their impact on the implementation of the strategy and the performance of the organization.

The article clarifies the definition of risk and proposes a classification of the risks of the organization's activities, taking into account the provisions of the concept of six capitals and the concept of sustainable development. Proposals are given for disclosing risk information in an integrated report, including the processes and organizational model of the risk management system, key risk indicators, their correlation with the strategic goals of the organization, risk management practices

and the use of digital technologies. It is argued that the integration of ESG risks into the process of substantiating business decisions positively affects their quality and contributes to the achievement of the organization's strategic goals and its effective interaction with stakeholders.

Comprehensive identification and assessment of risks, their consideration in decision-making are in the sphere of mutual interests of economic entities and stakeholders. In turn, this serves as an impetus for improving corporate reporting, causing an increase in its informative and analytical value at the present stage.

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Aims and Objectives

Published online by ICS two times a year, Journal of Digital Science (JDS) is an international peer-reviewed journal which aims at the latest ideas, innovations, trends, experiences and concerns in the field of digital science covering all areas of the scholarly literature of the sciences, social sciences and arts & humanities. The main topics currently covered include: Artificial Intelligence Research; Digital Economics, Education, Engineering, Finance, Health Care.

The main goal of the journal is the effective dissemination of original incites/results generated by the human brain and presented/reflected in articles using modern information/digital technology.

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