

Accounting and analytical provision of corporations risk management: social responsibility issues

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Abstract: *In today's economic environment uncertainty and risk overwhelm any business. A large number of risks are inherent in socially responsible business, which necessitates the need for enhanced monitoring and management, the effectiveness of the risk management system and requires finding new directions for its development. Analysis of the annual reports of socially responsible companies (on the example of enterprises of agro-industrial complex) will enable to identify the risks inherent in their activities, methods of managing them as well as to establish the extent to which the issue of quantifying the negative effects of risks and opportunities can be identified. Suggestions are made to increase the effectiveness of the risk management system of socially responsible companies through international risk management certification. The directions of development of the risk management system in terms of quantitative measurement of the consequences of risks and opportunities with the purpose of meeting the information needs of stakeholders have been identified*

Keywords: *management, risk, social responsibility, corporations, management report*

JEL codes: M41, D81, G32

Introduction

Any business activity is aimed at making a profit, but making a profit is not the ultimate goal of a socially responsible business. Businesses are aware of the importance of having a positive impact on their country, region and city, as well as creating favorable conditions for improving the well-being of society, ending negative demographic processes and environmental disasters. Considering that a significant amount of risks are inherent in a socially responsible business, there is a need for enhanced monitoring and risk management of the company's activities and finding directions for development and improving the efficiency of the risk management system. Imperfection and inconsistency of risk management of companies, as well as the contradiction of the risk management system with the modern needs of stakeholders lead to the problem of completeness and significance of disclosure of aspects of socially responsible business in conditions of risk and uncertainty, on the decision of which our research is directed. The problem of the effectiveness of the risk management system and the results of its operation in providing stakeholders with information about risks, their consequences and management actions remains urgently insufficiently studied.

Methodology and Data

To reduce or avoid the negative impact of risks and related other phenomena and processes, it is necessary to implement measures and procedures of the risk management system that allow to effectively manage the risks of companies and minimize threats to the entity. Given the uncertainty of the economic conditions of large companies

(corporations), they are characterized by high risk in all areas and aspects of activity. At the same time, in the successful case, they are guaranteed great benefits, including huge profits. Taking into account the fact that large companies in accordance with their structure and purpose are specific entities, this raises the mandatory question of implementing and regulating the risk management system, considering the peculiarities of the operation of such companies in the market. Therefore, let's consider in more detail the essence and importance of implementing a risk management system in the management of companies. The main purpose of risk management is to reduce or eliminate possible losses from risk, so the definition of principles and functions of risk management are essential for the application of risk management in the enterprise (Vyhivska et al., 2019; Lehenchuk et al., 2020).

Risk management is a mandatory element of the social and economic component of the company's product, which allows to generate its social capital through highly effective socio-economic interaction (Ievdokymov et al., 2020).

Risk management is not an end in itself, but is auxiliary in relation to the main activities of the organization. Risk management aims to reduce the impact of consequences, not necessarily the consequences themselves. (Ievdokymov et al., 2020). Thus, risk management is an auxiliary set of principles, methods, procedures that eliminate risks or reduce their negative impact on all business processes (purchase, production, sales) and systems (accounting, internal control and audit, planning, investing and financing, management in general).

In order to establish the process of risk management and its minimization in corporations, we consider it is necessary to implement a centralized risk management system. Creating a risk management service is to ensure effective risk management and control to achieve current and strategic goals of the company.

The regulatory framework and documentary support for risk management should be developed, based on the provisions of international standards ISO/IEC and best practices in the field of risk management, with the involvement of international consultants and experts.

For companies that plan to develop, enter international markets or those that already operate in them, it is important to comply with international standards ISO (International Organization for Standardization). ISO international standards are designed to help enterprises, organizations (regardless of type and form of ownership) for implementation and operation of effective risk management systems. The main standard that regulates issues related to risk management is ISO 31000:2018 "Risk management – Guidelines", as well as supporting standards ISO/TR 31004:2013 "Risk management – Guidance for the implementation of ISO 31000" and IEC/ISO 31010:2009 "Risk management – Risk assessment techniques". The last two standards contribute to the effective implementation of ISO 31000 and complement the provisions of the basic standard.

As risks arise in different areas of business management, standards have now been developed to address such issues in different fields. Thus, **ISO 45001:2018 "Occupational health and safety management systems – Requirements with guidance for use"** and **DSTU OHSAS 18001:2010 "Hygiene and labor protection management systems"** provide for the implementation of risk-oriented measures for hazard identification, risk assessment and identification of management and control tools.

Equally important in risk management is their identification and information support, which is an important aspect for the company's stakeholders. Currently, the most optimal information resource for stakeholder purposes is the management report and integrated reporting, the concept of which provides for the mandatory disclosure of risks of the entity.

Therefore, according to the International Standard "Integrated Reporting" (hereinafter – the concept of IR) accounting system and risk management system through reporting should answer the question: "what specific opportunities and risks affect the company's ability to create value in the short, medium and long term, and how an enterprise uses such opportunities and manages such risks?" (ISO 31000).

Thus, according to the concept of IR, the main criteria for presenting information about the risks of companies in integrated reporting should include the source of risks and opportunities, risk assessment (probability of occurrence) and its consequences, risk management, i.e. measures, actions (Table 1).

Table 1 Criteria for presenting information about the company's risks in integrated reporting according to the IR concept

| Determination criterion | Characteristics of the risk criterion and its significance for the stakeholder | Significance criteria for reporting information about risks* |
|---|--|---|
| Source of risks and opportunities | Indicate the specific source of risks and opportunities, which may be internal, external or have a mixed nature. Coverage of risks of activity in reporting indicates the openness of the company and its focus on meeting the needs of stakeholders, as well as its social responsibility to society | 1) explanation of the factor and its impact on the strategy of the organization, its business model or capital; 2) significant interaction and interdependence, which allows to understand the causes and consequences; 3) the company's position to this factor; 4) management actions on this factor and their effectiveness (including the actions of the risk management system); 5) the degree of control of the company over this factor; 6) disclosure of quantitative and qualitative information, comparative data for previous periods, targets for future periods. |
| Assessment of risk (probability of its occurrence) and its consequences | An assessment of the probability of the risk or the possibility and extent of the impact of its consequences in the event of an occurrence is declared. Specific circumstances that may lead to risks or opportunities are indicated. Assessing the probability of risk allows stakeholders to correctly place emphasis on the feasibility of investing and cooperation with the company, the disposal of their capital | If there is uncertainty about any factor, the information about the following uncertainty shall be disclosed: explanation of uncertainty; the range of possible outcomes and related assumptions and possible changes in information if the assumptions described do not occur; variability, confidence or level of trust associated with the information provided |
| Risk management (measures, actions) | Specific actions are given to reduce and manage key risks, as well as actions to create value through the use of key opportunities, including the definition of relevant strategic goals, strategies, policies, targets and key performance indicators. This allows stakeholders to assess the effectiveness of the company's management system, the scope and scale of actions and measures, their economic feasibility | |

**If it is impossible to determine the most important information about the factor, it is necessary to indicate this and name the reason.*

Source: systematized on the basis of par. 4.25, par. 4.50 IR-2015, supplemented by the authors

It should also be noted that a significant number of corporations in Ukraine compile final annual reports taking into account the Global Reporting Initiative (GRI standards), which also defines a number of requirements for companies to disclose information about the risks of activities. According to GRI standards, reporting information is presented in the form of a sustainable development report, which is important for building a reputation as an open and trustworthy company.

Results and Discussion

Therefore, let's compare the degree of disclosure of information about the risks of activity (for example, agricultural companies), the assessment of their degree and the risk management measures provided in their annual reports for 2018 (Table 2).

It should be noted that for the analysis has been used the reports of companies prepared according to both IR and GRI standards, as well as management reports (according to the Law of Ukraine "On Accounting and Financial Reporting in Ukraine") and annual reports of issuers of securities (according to the Provision of NSSMC on disclosure of information by issuers of securities). This is due to the fact that information on risks is partly of a financial nature and is disclosed in non-financial statements of enterprises (Kubaščíková et al., 2019).

The analysis revealed that the issues of business risks, their consequences, risk management and capabilities of domestic agricultural enterprises are disclosed in the most complete and transparent way in the reports on sustainable development of Agro-Industrial Holding Mironivsky Hliboproduct, Astarta-Kyiv Agro-Industrial Holding, PrJSC Carlsberg Ukraine and in

the report on the management of PJSC Obolon (Table 2). The study showed that socially responsible companies in their activities are most affected by: 1) credit risk – 9 companies out of 11 surveyed; 2) liquidity risk – 8; 3) the risk of volatility of world prices, production risk and personnel risk – 7; 4) the risk of changes in interest rates and currency risk – 6; 5) political risk and country risk – 5 companies. Other risks are specific, have a low frequency of information about them in the reports, particular only to individual companies, which may indicate their dependence on the specifics of the business, its geographical location etc.

Table 2 Presentation of information on risks, their assessment and risk management in the annual reporting of enterprises of the agro-industrial complex of Ukraine

| Risk | Astarta-Kyiv Agro-Industrial Holding | PrJSC Carlsberg Ukraine | Agro-Industrial Holding Mironivsky Hliboproduct | PrJSC Vetropack Gostomel Glass Factory | PJSC Obolon | PrJSC Kyiv Confectionery Factory "Roshen" | The Coca-Cola System | PJSC Lebedyn Seed Plant | Goodvalley CSR | PrJSC Lantmannen Axa | The group of companies ATK |
|--|--------------------------------------|-------------------------|---|--|-------------|---|----------------------|-------------------------|----------------|----------------------|----------------------------|
| Country risk, % | 67 | 67 | 0 | 67 | 33 | 0 | 0 | 0 | 67 | 0 | 0 |
| Legal risk, % | 0 | 0 | 67 | 67 | 33 | 0 | 0 | 0 | 0 | 0 | 67 |
| Political risk, % | 67 | 33 | 0 | 67 | 33 | 0 | 0 | 0 | 67 | 0 | 0 |
| Climatic risk, % | 67 | 0 | 67 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 67 |
| Personnel risk, % | 67 | 67 | 67 | 67 | 0 | 0 | 67 | 0 | 67 | 0 | 67 |
| Production risk, % | 67 | 33 | 67 | 67 | 33 | 0 | 67 | 0 | 67 | 0 | 0 |
| Logistics risk (supplies, purchase), % | 67 | 0 | 67 | 0 | 0 | 0 | 67 | 0 | 0 | 0 | 67 |
| IT risk, % | 67 | 0 | 67 | 0 | 0 | 0 | 0 | 0 | 67 | 0 | 0 |
| Technical risk, % | 67 | 0 | 67 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Volatility of world prices, % | 67 | 67 | 67 | 0 | 33 | 0 | 0 | 33 | 67 | 0 | 67 |
| Changes in gas and fuel prices, % | 67 | 0 | 67 | 0 | 33 | 0 | 0 | 33 | 0 | 0 | 0 |
| Credit risk, % | 67 | 100 | 67 | 67 | 100 | 67 | 0 | 33 | 0 | 67 | 67 |
| Liquidity risk, % | 67 | 100 | 67 | 67 | 100 | 67 | 0 | 0 | 0 | 67 | 67 |
| Changes in interest rates, % | 67 | 67 | 0 | 0 | 100 | 33 | 0 | 0 | 0 | 67 | 67 |
| Currency risk, % | 67 | 100 | 0 | 67 | 100 | 33 | 0 | 0 | 67 | 0 | 0 |
| Environmental risk, % | 0 | 67 | 67 | 0 | 0 | 0 | 67 | 0 | 67 | 0 | 0 |
| Social risk, % | 0 | 67 | 0 | 0 | 0 | 0 | 67 | 0 | 0 | 0 | 0 |
| The risk of business expansion failure, % | 0 | 0 | 67 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Investment risk, % | 0 | 0 | 67 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Public risk (municipal), % | 0 | 0 | 67 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 67 |
| Risk of corruption, % | 0 | 0 | 67 | 0 | 0 | 0 | 67 | 0 | 67 | 0 | 0 |
| The average percentage of completeness of information disclosure | 45 | 37 | 54 | 26 | 28 | 10 | 19 | 5 | 29 | 10 | 29 |

Notes: % - percentage of risk information disclosure (R, RM, QE); R – risk; RM – risk management; QE – quantitative expression (measurement, evaluation).

Source: developed by the authors according to public information from the official websites of companies

Nowadays, as always, the issue of quantitative measurement of the degree of risk and value assessment of its consequences and opportunities is critical. The analysis of companies' annual reports has been showed that those responsible for compiling these reports continue to ignore this issue. Only two of the eleven surveyed companies (PrJSC Carlsberg Ukraine and PJSC Obolon) provided quantitative values for several risks of their activities; the validity of the choice of these risks for the quantitative analysis of the enterprise is not given.

Conclusions

Thus, the identified problem of disclosing information in the reports of socially responsible companies about significant risks, their consequences and opportunities, their quantitative measurement (assessment) and impact factors is due to the inability of the enterprise information system (including integrated) to provide the necessary information. Also the reason for this is an improper organized management system in general and/or risk management system in particular. Regarding socially-oriented business risks, it has been concluded that only a small number of surveyed companies noted such information in their reports (public, social, personnel, environmental risks, corruption risk, etc.) and this indicates a low/insufficient level of corporate social responsibility of certain enterprises.

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