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## **KEY RISKS OF DIGITAL BUSINESS TRANSFORMATION**

Oksana G. Timchuk (a)\*, Malika V. Evloeva (b)

\*Corresponding author

(a) Irkutsk National Research Technical University, Irkutsk, Russia, oksana-timchuk@yandex.ru

(b) Irkutsk National Research Technical University, Irkutsk, Russia, malika-vahaevna2013@yandex.ru

### ***Abstract***

The globalization and digital economy require adaptation of businesses to new conditions. Despite the fact that many scientists have studied the problems of doing business, the issues of risk management are understudied. The key to business efficiency, its competitiveness is the effective use of information resources, protection of the business information base. The momentum for implementing the new technologies and operating models needed to achieve these benefits is constantly growing. The risk function, which has significantly increased its spending over the past decade, should be no exception. Indeed, we are beginning to realize that the disappearing digital transformation creates real value for the company by improving the efficiency and quality of risky solutions. The digital risk function also provides more effective monitoring and control, as well as more effective compliance with rules. The implementation of various information systems can solve the issues of completeness, reliability and confidentiality of information. A key position of the market economy is the continuous search for assets that generate income that exceeds average profitability; in the digital economy, these positions are unchanged, but there are other horizons for businesses, competition strengthens, which makes businesses to adapt to the conditions of the digital economy. The authors studied existing business risks and defined the concept "business risk". It is obvious that the scope of competition will expand if the risk is minimal. The crucial issues are as follows: how to do business with minimum risks. The authors developed a business model of the online platform for business communities.

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**Keywords:** Business, risk, IT-technologies, digitalization.



## **1. Introduction**

In the context of the digital transformation of the economy, the successful digitalization of businesses is crucial (Teece, 2018). The authors pay special attention to risk management issues in business communities.

## **2. Problem Statement**

The process of business transformation requires the internal control over business processes and high-quality information protection. Digital technologies can be not only a catalyst for growth, but also a disruptive factor with far-reaching consequences for the economy. Productivity, employment, and well-being. While new technologies create business opportunities workers and citizens to engage in economic activities, these technologies are also likely to be the displacement of workers performing specific tasks, can lead to a further widening existing gaps in access and usage, which will lead to the emergence of new the digital divide and even greater inequality (Curran, 2018). This report assesses the main risks in business and their role in the transformation of the economy.

## **3. Research Questions**

Of course, we are talking in particular about security threats in the context of rapid technological innovation and growing globalisation and interconnectedness (and hence the reliance on digital technologies that underpin this combined digital business). In the current conditions of the digital economy, there are various definitions of the concept “risk” (Robbins, 2018).

## **4. Purpose of the Study**

For a business that is actively working in the "digital economy", it is highly important to own it in the guise and accept that there is a large number of fluctuations, and reselling the benefits for themselves will not always reduce it. Technological evolution is not only seen as a risk in the sense of security. Let's face it: almost all organizations are still afraid of the impact of technological innovations on their business models and the latest outcome (Elder-Vass, 2018). They understand that there is no other choice but to develop and increase their personal pace in order to close the gap between where they are present and the speed with which digital evolutions occur in the lives of customers and in the markets in which they work.

## **5. Research Methods**

The research methods are as follows: 1) general research methods: analysis, generalization, analogy and abstraction; 2) empirical research methods: observation, description, comparison; 3) theoretical research methods: idealization and formalization, systematization of scientific knowledge – typologization and classification.

## 6. Findings

Kotlyarova defines the concept as a direct event caused by some factors which provoke a deviation from the planned goals of the project (as cited in Loren, 2018).

However, these definitions do not reflect the nature of business risks.

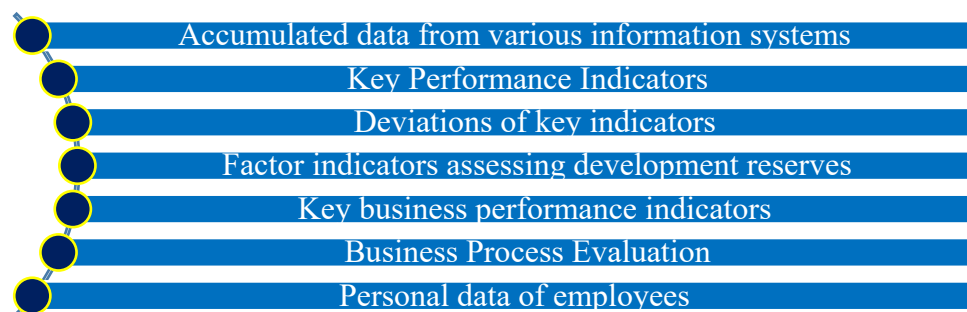
The authors define the concept "business risk under the digital transformation" as a probability of occurrence of adverse events for the company.

As part of the study, it is necessary to classify business risks. Having studied the existing classifications of business risks, the authors developed their own classification which can reduce business risks (Figure 01).



**Figure 01.** Classification of business risks

Special attention is paid to the information risk because companies need maximum protection from risks arising in the process of business transformation, as the basic information and business processes are being digitalized. Figure 2 provides basic information which can be subject to risks (Figure 02).

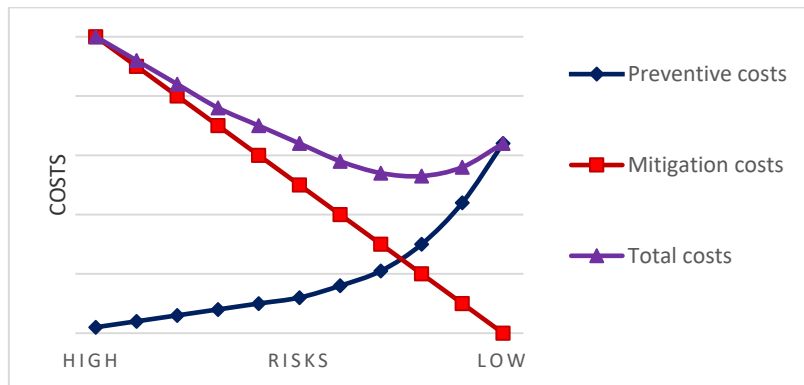


**Figure 02.** The main sources of information subject to risks

The current level of development of economic relations requires the modernization of the national economy. Business development remains one of the key areas of development of the digital economy (Levitsky, 2017). Existing business models are being transformed, the added value model is changing,

and economic effects of intermediation are being reduced (Veretekhina et al., 2017). However, the digitalization processes do not change the entire system of economic relations, transforming part of the processes, transferring them to the IT sphere, creating new directions for the development, while the sphere of material production remains unchanged. The primary goals of a business risk management program depend on its digital strategy. Therefore, we can assume that in the competitive environment, businesses also affect risks (Toffler, 2018).

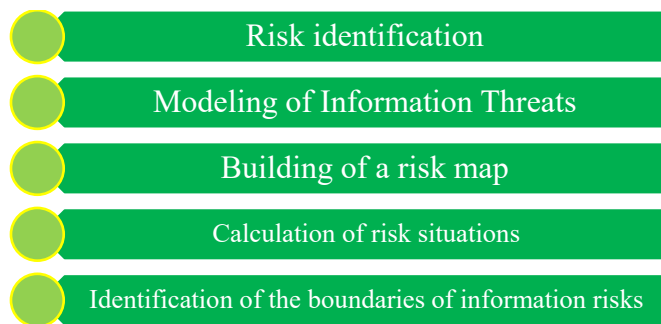
Figure 3 shows the costs of business risks.



**Figure 03.** Costs of business risks

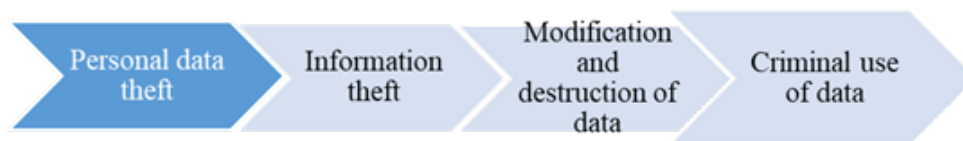
Figure 3 shows that the risk costs are high. This indicates a low dynamics of business development; high costs of risk do not contribute to the business development. Therefore, it is necessary to develop a business model for reducing business risks in the digital economy.

There are basic risk assessment methods (Figure 04).



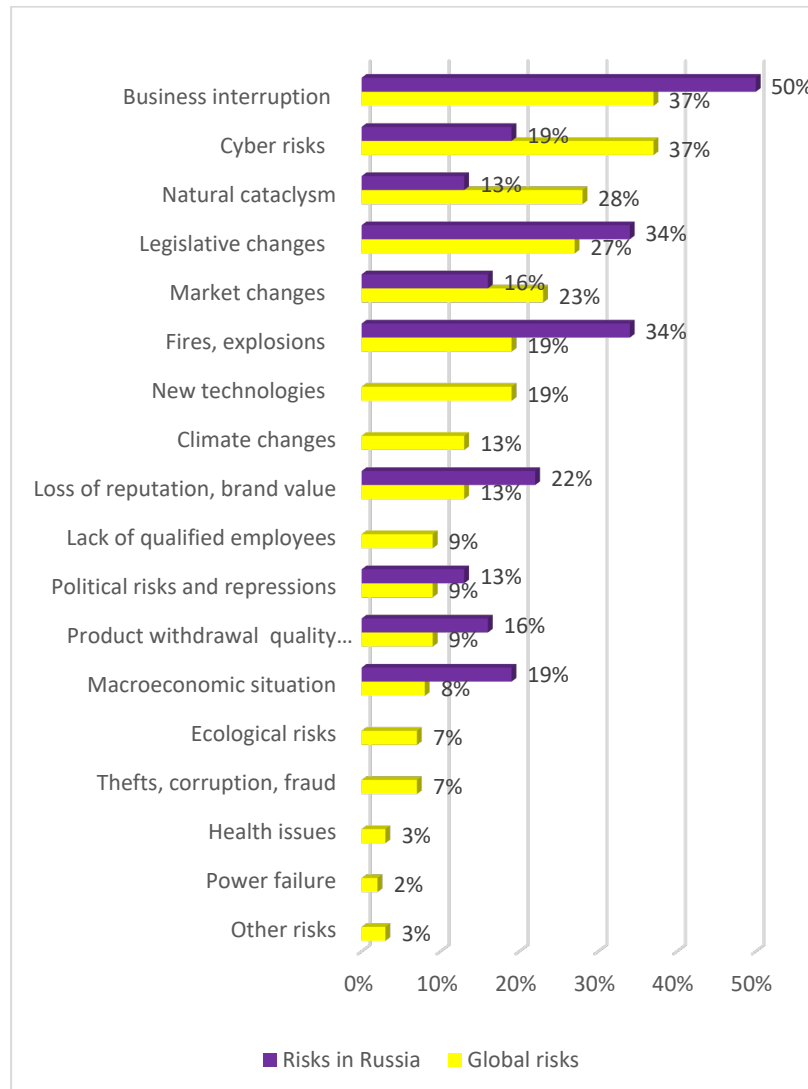
**Figure 04.** Information risk assessment methods

The Internet is an available means of communication. Hackers can use it. Protection of information is crucial for businesses. Business representatives should understand that information security can be threatened (Figure 05).



**Figure 05.** A number of threats implemented by hackers

The key findings of the Allianz Risk Barometer published annually by the Allianz Global Corporate & Specialty revealed what risks companies faced in 2019 (Figure 06). This study represents the opinion of 2415 experts from 86 states (Putin, 2017).



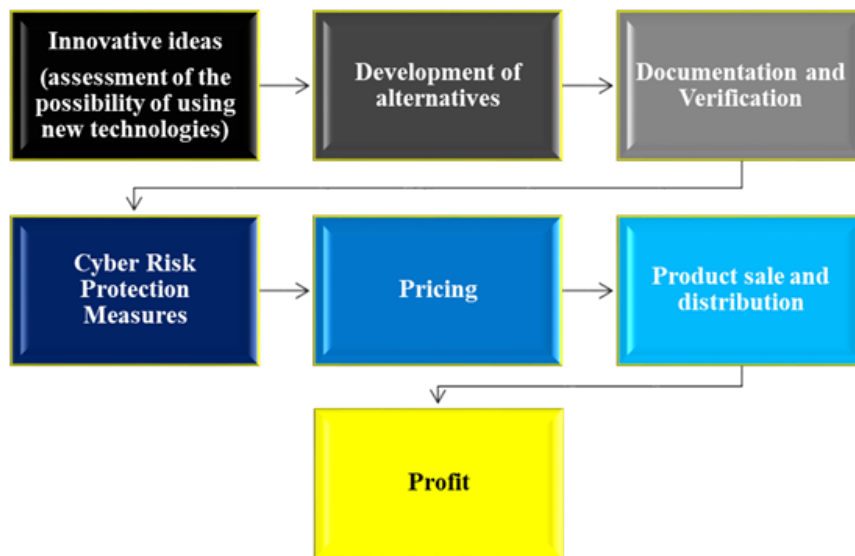
**Figure 06.** Analysis of Russian and global risks

Figure 6 shows that cyber risks rank second in the global risk ranking and fifth in the Russian risk ranking. Despite the fact that a new law on the protection of personal data has entered into force, cyber risks remain a key danger. Therefore, maximum information protection is of great importance in the process of digital transformation of businesses.

At the intersection of the physical and digital worlds, in the process of interaction between people and smart devices, “digital” business develops. This is the digital transformation.

A well-built model of “digital” business is a set of business-determining decisions made for profit extraction. The general availability of the Internet creates special conditions for doing business (Veretekhina et al., 2017).

The business model developed by the authors includes strategic concepts that represent actions aimed at achieving business goals (Figure 07).



**Figure 07.** Business model for a “digital” business.

To conclude, it is necessary to take into account consequences of the Internet transformation and creation of new forms of values, expansion of the composition and number of participants in the global financial relations.

## 7. Conclusion

It is necessary to analyze risks in order to prevent or minimize them. The digital business platforms should be implemented as soon as possible.

This will primarily contribute to the competitiveness and maximum profitability of companies.

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