

## **The Economic Potential of the Company: Approaches to the Definition and Methodology for Assessing**

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**Abstract:** Activity of the economic entity is a difficult system, which is described by the set of indicators. Competent management allows to provide accurate functioning of the system. Validity of administrative decisions provides timely and qualitative analysis of the potential of the company. Thus, one of the priority objectives of the company to become the formation and evaluation of current and perspective opportunities of the company, or in other words, the potential of the company.

**Key words:** Economic potential • Resource approach • Efficiency approach • Methods of the assessment of economic potential

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### **INTRODUCTION**

The problem of an initial assessment of potential opportunities of the organization and planned results of its activity gained special topicality in the conditions of liberalization of the economic relations. In this situation the main purpose and practical problem of management is creation and increasing the economic potential of the organization. It is necessary for ensuring economic stability in long-term perspective.

For achievement of the rational purposes and objectives management has to use not abstract concepts and specific indicators and the indicators, which are capable adequately to characterize the company's potential and dynamics.

And only on the basis of adequate data obtained from a competent economic analysis, it is possible to design the standard parameters of economic activity and business, planning of its final indicators, structuring internal resources and business units and the organization of the current and future activities on the assumption of the completeness and quality of implementation of the specific target plans and programs.

However nowadays the Russian business has no practical skills of the assessment of company's economic potential. As a result there are difficulties of management.

### **MATERIALS AND METHODS**

The methods of statistical analysis of marketing researches, qualitative analysis of scientific sources and literature are used in the given article.

Also the scientific methods of system analysis, structural and functional analysis, comparative analysis are used.

### **RESULTS**

The concept "Potential" arose from the Latin word "potentia". "Potentia" is translated as opportunity, force and power [1]. In the narrow sense of the word a potential is the degree of power in any aspect [2]. In the wide sense a potential is an available set of various funds, stocks and the sources, which can be used for achievement certain targets and for solution to specific problems [3].

Depending on the solution to the question of the essence of potential the general company's potential can be determined as its property and opportunity to provide positive (or negative) result in the existing system, taking into account company's ability to the development [4] or as a set of indicators or the factors that characterize its force, sources, funds, stocks, abilities, resources and many other production reserves, which can be used in the economic activity of the company [5].

Scientists pay considerable attention to the economic potential of the company.

According to Professor L.S. Sosnenko, economic potential of the organization is an aggregate of resources and reserves, which make up the available assets. But these assets must be provided with appropriate funding sources. Professor L.S. Sosnenko also thinks that economic potential is the ability of the organization to ensure its long-term functioning and the achieving purposes on the basis of using available resources [6].

N.F. Riffa considers economic potential is an aggregate of resources and the revealed reserves, due to which the organization can implement production and economic activity [7].

From the Accounting point of view the economic potential is assets and formation source of assets (liabilities or resource potential) and their ability to bring a certain financial result during the realization of production and financial activity (the operating potential) [8].

Professor O. N. Krivoruchko proposes to understand the economic potential as volume, multistructural concept. This concept is the most suitable for the aggregated assessment of economic facts and processes which affect the availability of various forms and methods of implementation of the economic reforms and transformations [9].

Resources and effective approach to the definition of the economic potential of the company are widespread.

Resource approach assumes the consideration of economic potential as a combination of available reserves and resources. Assessment of the economic potential of the company according to the resource approach assumes determining the qualitative and quantitative characteristics of values of separately taken types of resources.

Resource approach doesn't take into consideration the interaction of resources and accordingly there is no measurement of this interaction. Consequently there is no measurement of all economic potential as a result.

Therefore at an assessment of economic potential from the position of resource approach in order to avoid excessively its narrow treatment, it is necessary to use indicators which would characterize system as a whole [10, 11]. Thus resource approach characterizes the reached level of economic potential of the organization.

Efficiency approach assumes the account and expression in indicators of all factors, which determine and influence possibility of ensuring functioning of system. This requires the determination of system (result)

characteristics of all types of resources, knowledge of ways of their using and control [11]. Thus the treatment of economic potential from the point of view of efficiency approach characterizes set of future opportunities of the company. And these opportunities are necessary for output to meet the public needs [12].

Authors of these approaches are presented in Table 1 [10, 9]:

P.V. Aristarkhov separately allocates target or strategic approach to the assessment of economic potential of the company. According to this approach economic potential is treated as ability of the company to provide the long-term functioning and to achieve the strategic purposes thanks to cash resources [12]. Also, this approach takes into account the organization's ability to adapt to rapidly changing environmental conditions.

A.P. Romanov offers system approach for definition of essence of economic potential which includes besides resource, efficiency and target approaches also reserve approach. The essence of reserve approach consists in differentiation of the concepts "potential" and "reserves". In his opinion potential is existing and possible and reserves are possible, but not currently used.

In other words reserves are significant, but not the only part of the economic potential. This approach is connected because there are difference between the established capabilities and their actual using. And these untapped opportunities act as production reserves, which reflect the degree of utilization of economic potential [11].

Assessment of the economic potential of the organization is very important from both theoretical and practical point of view.

Possession of information about the value of the economic potential allows to determine the aggregate potential of the industry and the economy as a whole and also serves as the foundation for the elaboration of long-term development strategies. Also the possession of information about the value of the economic potential allows to define determine how effective a given venture works [13].

However, due to the lack of unified approach to the interpretation of the term "economic potential", there is no single avowed method for analyzing economic potential. Authors offer their methodology for assessing the economic potential. Because different authors have different understanding of economic potential and its structure. It is important to note that measurement economic potential by one indicator is a insufficient and a low-informative. Therefore it's necessary to use the system of indicators.

Table 1: Approaches to the definition of the concept “economic potential of the company”

Author	Definition
<i>Resource approach</i>	
L.S. Sosnenko	total resources of an economic entity
E.A. Ivanov, V.K. Faltsman	basic production assets and capacities
E.B. Figurnova	the Manpower and the minerals participating in production
Y.V. Timofeyeva	Set of resources available for the organization and opportunities for their use which can be mobilized in the course of financial and economic activity; Totality of available organization’s resources and opportunities for their use, which can be mobilized in the process of financial and economic activity
<i>Efficiency approach</i>	
R.Y. Simionov	Ability of the enterprise to the creation, preservation, development and active use of tangible and intangible assets, human resources and capabilities of the business environment to achieve competitive activities
L.S. Sosnenko	organization’s ability to develop, process available resources to meet the social needs
G.N. Gogina, E.V. Nikiforova, S.L. Shiyanova	Company’s capacity for the current period or its ability to carry out production and economic activities, to ensure the development of production, carry out other purposes. And also possibility to maintain company’s position and to develop it in the future

Many authors consider that for an assessment of economic potential it is necessary to use accounting reports of a firm. Because in their opinion Accounting reports contain main information about the activities of the organization and its financial results.

If we will analyze the forms <sup>1</sup>”Balance Sheet” and # 5 “Appendix to the Balance Sheet”, we can get the multilateral characteristic property of the organization. These forms contain a large number of the absolute measures, which reveal information about a value of fixed assets and stocks, etc.

If we will analyze the form <sup>4</sup> “Statement of Cash Flows” we can draw conclusions about the financial health of the organization.

If we will analyze the form <sup>2</sup> "Profit and Loss" we can define the profitability of enterprise assets, sales, the net profit, etc.

For a comprehensive analysis of the economic potential all accounting forms are important.

In this situation all Accounting forms are information base for the analysis and the assessment of the economic potential of the organization [9].

However Accounting reports can't act as the main and a comprehensive source of information. There are the following objective factors:

- Possibility of subjective distortion of data of Accounting reports,
- Low degree of operativeness of Accounting reports,
- Insufficient informational content because of existence in accounting reports of only integrated indicators, which not allow to obtain analytical data [9].

M.A. Vakhrushina considers that results of the assessment of the economic potential should serve to interests of various subjects of the economic analysis (users of information, having different purposes).The solution of this problem, according to the author, is the complex assessment of efficiency of financial and economic activity of the enterprise.

The complex assessment is a system analytical research. According to the research results on the basis of the aggregate analysis of earlier investigated aspects of company’s activities of the generalizing characteristic of its efficiency can be received.

The purpose of a complex assessment is receipt of such research results which would be the most realistically reflect the position of the organization in the market [14].

Methods of complex analysis of economic potential presented in Table 2.

The group of authors considers that the extremely important in the assessment of economic potential is the assessment of a property, financial position taking into account availability of "sick articles" in the Account report. Based on this, they offer the following methodology of the assessment of economic potential:

For the analysis of property potential it is recommended to use relative indicators owing to difficulty of comparison of absolute measures because of inflation.

- Assessing the amount of economic resources of the organization receive an aggregate assessment of the assets of the organization. Growth in this index indicates an increase in property potential.

Table 2: Methods of complex analysis of economic potential

Methods of complex analysis	Features of methods
Assessing the probability of bankruptcy	It is carried out on the basis of author's and state methods, allows to estimate the signs of a bad structure of the balance sheet, allows to estimate the signs of fictitious and deliberate bankruptcy, gives a cumulative assessment of the probability of bankruptcy
Analysis of the Creditworthiness of the borrower	It is carried out on the basis of commercial banks' methods, allows to estimate the current and future capabilities of the borrower for servicing liabilities
Forecast analysis	is based on calculation of forecast indicators of financial results, balance and cash flow. The complex assessment of future condition of the entity is carried out on the basis of forecast analysis
Assessment of the enterprise value as a unit of property complex	Gives the chance to receive the comprehensive assessment of business success and management effectiveness. The dynamics of this indicator, according to many authors, is the most exact generalizing assessment of the company's activities
Examination of participants of tender for delivery of products for the state needs	Gives the chance to receive an entity assessment from the point of view of its reliability as the product supplier for the state needs. Indicators of this technique are experience of the participant, sufficient of labor, financial and material resources, financial stability and solvency of the company
The rating assessment of the organizations	Gives the chance to receive generalizing characteristic of the entity – its provision in comparison with the established optimum measure values of indicators and in comparison with indicators of other companies that are included in the rating

Table 3: Methodology of the assessment of economic potential

Assessment of a property situation	Size of the fixed assets and its share in assets, Coefficient of depreciation of fixed assets, Total number of economic resources available to the organization.
Assessment of the financial situation	Size of its own funds and its share in total sources, Current liquidity ratio, Share of own circulating assets in all assets. Share of long-term debt in the total sources The coverage ratio of reserves.
Availability of "sick articles" in the Account report.	Losses, Loans that were not repaid in a timely, Overdue receivables and payables, Paid (received) bills that were overdue.

- The share of the active part of fixed assets represented by available machines, vehicles and equipment.
- The coefficient of depreciation is the characteristic of value of fixed assets, which are written off as deferred expenses.
- The coefficient of Renewal reflects a ratio of assets which were arrived at the end of accounting year and having fixed
- The coefficient of disposal reflects a share of the disposed assets due to depreciation and obsolescence and other reasons.
- The method of the amounts – assumes the summation of certain statistics indicators such as growth rate, increment rate, rate of compounding selected characteristics;
- Weighted arithmetic mean -- in contrast to the method of the amounts taken into account share or specific gravity t of each analyzed element;
- The method of the amount of ranks – assumes the summation of the levels within a ranking which were reached by the companies on various selected indicators: the smallest amount of places assumes the first place in the rating of the companies and the greatest amount – the last place;
- The method of a ball assessment – assumes assignment a weight ball to each indicator and the assessment on ball system of an increment of indicators on a certain scale.

The assessment of structure and structure of property of the organization is originally necessary for financial analysis [11].

Also among the methods of assessment of economic potential are widespread the statistical and econometric methods.. The most commonly used are the following:

Besides it authors also use methods such as correlation and regression analysis; signal analysis; growth of the total resource at 1% growth in sales of products; determination of the share of influence of intensification on the increase of production taken as 100%, etc. [14]. Also it is applies qualitative and quantitative methods for assessing the economic potential of the organization.

Applying the qualitative methods is carried out through interviews with specialists in this field. For this reason, qualitative methods also called expert methods. Qualitative methods include the following evaluation methods:

- Method of expert evaluations;
- Brainstorming;
- Business games;
- Development of scenarios.

The advantage of this methods is to leverage the knowledge, intuition and experience of highly qualified specialists, considering in the analysis rather large number of factors.. A significant drawback of this method is its subjectivity.

Applying of quantitative methods allows to estimate extent of influence of factors on a resultative indicator, helps in finding the optimal solution for the use of productive resources, etc. Quantitative methods include:

- Use absolute, relative and average values;
- Comparison and grouping;
- Index method;
- Method of chain substitutions;
- Integral method [15].

### **CONCLUSION**

Firstly, the category "economic potential" for the commercial organization can't be limited to the certain, accurately defined framework. The variety of approaches to the concept of economic potential caused allocation from all approaches of two main approaches - resource and efficiency.

Secondly, as a rule, in structure of economic potential authors allocate property, financial, a manpower. These components can be determined as basic for research and the assessment of the economic potential, added with individual components for different organizations.

Thirdly, level of economic potential is determined by the strategic purposes facing the specific organization.

The main purpose or organization mission is characterized by a set of local purposes. For achievement of each local purpose is used the set of various potentials of the organization: labor, market, financial, industrial, institutional and others. Priority of certain components is determined based on a number of factors external environment and internal production factors that influence on the economic potential in accordance with the organization's various purpose [16].

Fourthly, there are now many different methods for assessment and analysis of the economic potential of the company. The decision on application of particular methods depends on the management purposes, depends on indicators which you plan to analyze. Therefore for ensuring comparability of resulting effects of the assessment development of the universal methods of an assessment of economic potential is extremely important.

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