

# Crisis as a Factor of Economic Potential Reproduction of the Company

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**Abstract**— The article examines opportunities of formation and using of specific development potential of the companies in crisis conditions, which is relevant to the modern economy. The authors allocate the following economic development opportunities in crisis conditions: increase the number of clients, adjustment of the range of products, the increase demand for products against the background of the import substitution, the attraction of additional investments, the participation in the cooperation, the workforce optimization, the reduction of financial risk. These measures will allow to enhance the effectiveness of company functioning and to reproduce its economic potential.

**Keywords**— crisis, economic potential, reproduction of the economic potential of the company, crisis threat's degree, economic development opportunities

## I. INTRODUCTION

The strategy of municipality is an important element of The modern economy's peculiarity is its high exposure to macroeconomic crises. There are complex, turning points, crisis situations caused by a wide range of both external and internal factors in the activity of company. It is considered that crisis resulting from the financial and market instability, even so organizations often accept the main aim not the maximization of profit, but the preservation of the enterprise and costs minimizing. The existence of many unresolved problems related to the effective functioning and development of socio-economic systems in a post-industrial society and the global systemic crisis requires a conceptual understanding.

## II. DEFINITION OF CRISIS

The scientists' interest to the crisis as the factor of evolution of economic systems and to the problems of anti-crisis management at various levels ignoring of which is impossible in market conditions considerably grew in the conditions of market economy.

The "crisis" concept roots come from the Greek language. The expression "crisis" came from the verb "krino", which

meant separating, choosing and solving between two opposing variants, life and death, luck and failure [1]. The word "krisis" means a dangerous state, a difficult decisive moment, a fundamental moment in which the issue is resolved (about the result, about the subsequent existence, about the subsequent development), a minute when people feel uncertainty, confusion and difficulty.

Koselleck, who is interested in the crisis primarily as one of the basic concepts of history understanding, identifies three semantic models of the crisis notion. We are interested in one of them, in which crisis is associated with crossing the boundaries of different eras, with a rapid transition from one stage to another. This is an iterative concept, which supposes that the crisis is periodically manifested in history as a dynamo of development and progress. At that crisis is taken in as a one-time, accelerating process in which a new situation is born and develops from the destruction of the existing system [2].

According to V.A.Gubin [3] in functional terms crisis has a dual nature, simultaneously creating and destroying, i.e. forms the prerequisites and prepares the conditions for further development and frees from the previous business strategy. In the systems development dynamics the crisis carries out three important functions:

- sharp weakening and removal of obsolete elements of the dominant but already exhausted system;
- space clearing for the growing up of initially weak elements of the new system;
- strength test and transfer of those elements of the system that accumulate and pass into the future.

At the same time the author suggests considering the crisis as a permanent process of development of its conflict with the external market environment, caused by the discrepancy of motivations, interests, expectations and actions, manifested through confrontation of the objective and subjective entities of the economic system. The presentation of the crisis as a

process allows to understand the true nature of the crisis phenomena in the economy, which do not arise rapidly and unexpectedly, but were in the functioning and development of any economic system initially and can lead to its insolvency under a certain scenario.

Financial unreliability can be a result of crisis processes of the company.

All types of crises interact and multiply the general negative result (production and commercial crises can be result of technological crises and lead to financial and payment crises, which aggravate reproductive crises in the presence of organizational crises), promoting emergence of the general (system) crisis, creating danger of loss of financial stability and emergence of insolvency, strengthening the negative phenomena in the company activity. The localization of one crisis does not mean the disappearance of the other and vice versa, which explains the nature of unreliability of commercial structures.

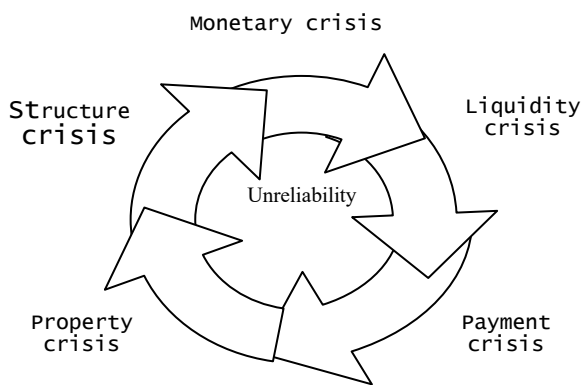


Figure 1. Crises' relationship and interdependence

Different methods of forecasting allow to determine the manifestation of a crisis' particular type, but don't allow to reliably link the forecasting results with the actual occurrence of unreliability.

The crisis is particularly close to concepts such as "risk", "catastrophe" and "collapse" in social sciences. These terms serve very often to express apprehensions that, in certain cases, even take on apocalyptic dimensions. I. Schubrt connects risk with that which can precede crisis and influence its emergence. Catastrophe or collapse the author connects with result to which development of risk factors or uncontrolled crisis can lead. Thus, the crisis is perceived as a direct prelude to the catastrophe or collapse, creating and causing them. Catastrophe and collapse, in turn, are perceived as a kind of final stage of the crisis, as a negative culmination of crisis development. Catastrophe, in fact, can be perceived as a synonym of collapse, or collapse can be considered such a catastrophe, which has an absolutely destructive character. [4] It is necessary to distinguish between crisis and catastrophe. Catastrophe is defined as a fact, a well visible phenomenon. And crisis can be latent or insidiously creeping up. It manifests often only in the quantitative (rather than qualitative) failure of a certain regulatory process. However, there is a clear relationship between crisis and catastrophe: the

crisis often notifies about the catastrophe, precedes it or becomes the catastrophe cause.

The area of interaction between the economic system and the external market environment, where there are irrational expectations and parties actions that can initiate their conflict and lead to the failure of the system, is proposed to be considered as a crisis field of the economic system. A diffusion of economic system's crisis field, characterized by the emergence and penetration of irrational expectations and actions in new areas of interaction with the external market environment, occurs in the constant process of formation and development of the economic system. The scale of the diffusion of the crisis field is characterized by the degree of irrational expectations and actions in these areas. Diffusion of the crisis field creates prerequisites for the destruction of the current state, organization and structure of the economic system. In this regard V.A. Gubin under the crisis threat assumes to see the destruction danger of the economic system as a result of the development of its conflict with the external market environment. It seems that this danger should be the primary focus of the study of the economic system as an control object. The indicator of the conflict depth and, accordingly, the indicator of the crisis state of the system is proposed to consider the ratio between its rational and irrational expectations and actions (table 1)..

Table 1 – The scale of the diffusion of the crisis field and the crisis threat's degree for the economic system.

The ratio between rational and irrational expectations and actions of the economic system	The scale of the diffusion of the crisis field	The crisis threat's degrees
The absolute dominance of the rational expectations and actions	Minimum	Prior
Qualified or simple prevalence of rational expectations and actions	Increasing	Latent
Simple prevalence of irrational expectations and actions	Prevailing	Real
Qualified prevalence of irrational expectations and actions	Dominant	Legal
The absolute dominance of the irrational expectations and actions	Maximum	Catastrophic

Depending on this ratio it is proposed to determine the scale of the diffusion of the crisis field and the appropriate crisis threat's degrees: prior, latent, real, legal and catastrophic degrees.

The prior crisis threat is an inherent, inevitable danger of the destruction of the economic system as a result of the development of its conflict with the external market environment.

The latent crisis threat is a concealed (not obvious) danger of destruction of the economic system as a result of the development of its conflict with the external market environment.

The real crisis threat is the de facto present danger of the destruction of the economic system as a result of the

development of its conflict with the external market environment.

The legal crisis threat is the officially established (recognized) danger of destruction of the economic system as a result of the development of its conflict with the external market environment.

The catastrophic crisis threat is an officially recognized fact of the destruction of the economic system as a result of the development of its conflict with the external market environment.

The interpretation of the crisis threat proposed by V.A. Gubin and the formulated approach to structuring its degrees serve as a starting point for expanding the scientific understanding of the crisis economic nature and the essence of management of the economic system as a means of rationalizing its economic interests, which allows to monitor and neutralize the crisis threat constantly, creating the preconditions for the harmonious functioning and development of the system.

E.V. Broilo suggests considering the economic crisis as a consequence of shock situations and disbalances of the economic system affecting the economy in different periods and having stable consequences. In the opinion of V.V. Zykov, A.G. Leontieva, E.V. Broilo the crisis means forms changing or system changing, destruction of former communications or reproduction of new ones. The crisis can have a significant impact on the economic stability of the system. It is inevitable, regular and becomes an indispensable phase of the cyclical development of the system. Moreover the onset of the crisis is not seen in economic science as a negative phenomenon, but rather as a starting point for the revival of the economy, leading to the renewal of capital, further development and improvement of the economic system.

According to M.A. Lukashova, the crisis situation at the enterprise is an objective and multifaceted process, the crisis leads either to optimize the system by activating all its elements, its development and prosperity, or to its complete destruction in the event of inability to adapt to new conditions.

Thus, even the classics of the economy, such as J. Schumpeter, R. Koselleck, P. Ricoeur noted that any economic crisis is having not only the adverse effects but a positive impact on policies that will hold the state power entities. The economy of each state moves to more innovative ways of development, new projects are being implemented during the crisis. And most of the discoveries and innovations are made in the period of economic recovery from the crisis. However, there are difficult problems for the Russian Federation to find free capital and incentives to attract them into the innovative sectors of the economy. At the same time K. Borchardt warns against exaggerated optimism and hope for the economic crises' functionality. He emphasizes that crises need to be studied and get from them the knowledge that can serve to correct structural dissonances.

### III. REPRODUCTION OF THE COMPANY'S ECONOMIC POTENTIAL IN THE CRISIS CONDITIONS

Improving the economic management efficiency is largely based on the understanding of reproduction and capitalization processes that occur not only at the regional level, but also at the level of individual economic entities. Exactly the creation of conditions for sustainable development becomes an incentive for regional reproduction processes and can significantly heighten the competitiveness of companies.

Reproduction of the company's economic potential is connected with the process of continuous updating of all its components. The economic theory distinguishes:

-simple reproduction of company's economic potential is carried out in constant volumes for updating of the consumed production factors and ensuring continuity of company functioning;

-expanded reproduction (development, strengthening) of the company's economic potential provides for the quantitative and qualitative development of production factors and other components of the potential, which ensures higher efficiency of the enterprise.

There are self-regulators of social relations, balancing interests of all involved actors in the process of their competition in a market economy. At the same time, stable social and economic systems are formed. This is markets capable of maintaining a dynamic balance between commodity and money supply, entrepreneurial abilities of producers, speculative aspirations of sellers and unsatisfied desires of buyers, from the interaction of which competition is born (figure 2).

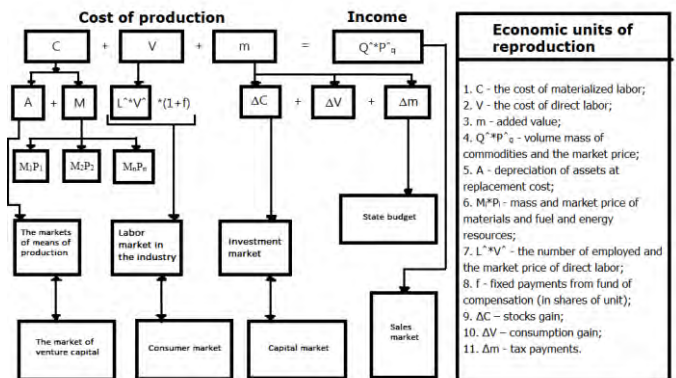


Figure 2. Connection of economic units of reproduction of the company's potential with the markets of production factors

For effective reproduction of company's economic potential it is necessary to create and maintain certain conditions and to consider a set of the factors characterizing external and internal environment of the company. Moreover, it is very important to find a balance between the interests of different groups in favor of the company, giving priority to its goals. Factors affecting the conditions of the reproduction process can be divided into external and internal environment of the company factors.

The external environmental factors include the environment of direct influence (suppliers, consumers, government, competitors) and the environment of indirect influence (the economic situation in the country, political factors, relations with the local population, technology, environmental factor, etc). It is important to take into account the general features of the impact of the external environment on companies during the analysis and planning of the economic potential.

One of the most important factors affecting the company's economic potential is the economic situation in the country. Now all organizations of the country are affected by the world economic crisis which once again exposed in Russia internal system crisis. Russia's current economic system is set to the dollar price per barrel of oil, not to the public labor productivity. As a result, manufacturing and agriculture are degraded.

The economic crisis with the structural problems of the country, affects not only the company itself, but also its entire environment, the entire technological chain. As a result a reduction in demand for the products of industrial enterprises in statistical reports, there are problems with supplies, with the receipt of loans, etc. So the volume of industrial production falls, investment programs are curtailed.

The environmental factor also has a significant impact on the company's economic potential. Acting on the one hand as an additional cost item in the production cost, maintaining an acceptable level of environmental conditions is the basis for the future development of our planet. Therefore, each enterprise in the analysis, capacity planning should take into account the requirements in the field of environmental policy of the country and the world community and to reduce the negative impact on the environment.

In the context of globalization, any company must produce products that meet world-class quality standards in order to be successful. For this purpose the enterprise has to use actively the latest achievements of the scientific and technological progress, work at the modern high-performance equipment.

Great importance on the results of the company's operation and its economic potential also has a political factor. Combining the interests of government agencies with the management of the enterprise can lead to the adoption of not effective management decisions, and those that benefit a narrow circle of persons. That's why the degree of realization of the economic potential of the enterprise can significantly decrease.

According to K.Yu. Matveev, Yu. V. Matveev [10] on the basis of a conceptual approach to reproductive potential aggregate resources, factors and results of operation of the reproduction process, it is possible to classify the potential into three groups.

1. The economic power of the reproduction system, characterizing its strength and magnitude (size) through the actual and volume indicators; it can be represented as the achieved economic potential. Quantitative and qualitative aspects of the reproduction process can be revealed through:

- actual (achieved) resource indicators: resources of explored mineral resources, population, number of labor resources, cost of main production and non-production assets;
- actual (achieved) performance indicators: absolute value of output and services, gross value added, miscellaneous income;
- actual (achieved) factor indicators: dynamic parameters of external and internal environment, including resource and performance indicators.

2. Estimated, projected economic reserves, the potential for increasing the above three groups of indicators. This aspect implies a possible, predictable (potential) but not yet used potential. Such a part of the potential can be revealed, for example, such indicators as the estimated (but not confirmed) mineral reserves, the volume of losses in the economy, the number and share of loss-making enterprises in their total number, the share of overdue debts in the wage fund, the share of overdue accounts payable in the economy, the number of unemployed and the unemployment rate, inflation rates, indicators of the "shadow" economy.

3. Hidden (unknown) potential, which has an implicit, immeasurable, hidden character, represents unknown values of the above three groups of potential indicators. This potential can be transferred to the 1st or 2nd group as a result of unforeseen and significant changes in the internal and external situation, scientific and technical innovations.

The logic of the research leads us to the general scheme of reproductive potential, which can be represented in figure 3

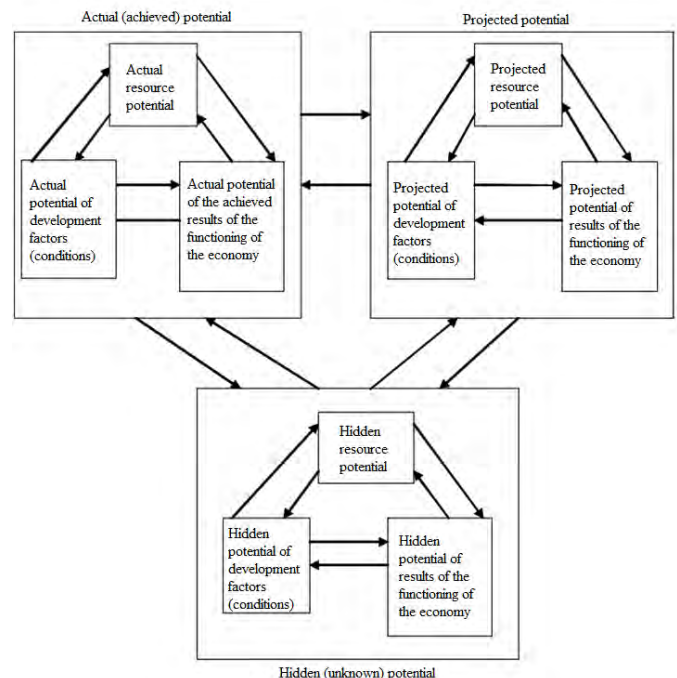


Figure 3. Extended scheme of the reproductive potential

As we noted above, in economic science argues that a crisis situation can have certain prospects of development and generate growth opportunities for the business units. The main

thing is that it is necessary to have a high level of development of the managerial component in order to transform the looming threats to economic activity into possible points of growth. Thus, we distinguish the following economic opportunities for companies in crisis (Figure 4).

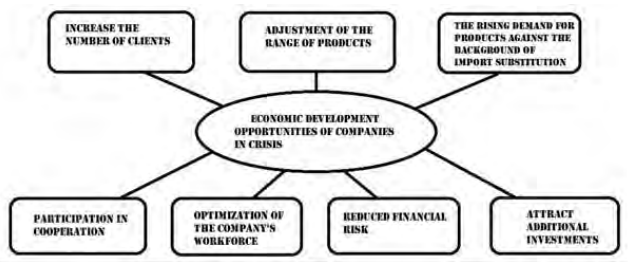


Figure 4. Economic development opportunities of companies in crisis [11]

- Increase the number of clients. Against the background of the global crisis many uncompetitive companies become bankrupt, freeing customers, so entrepreneurs who managed to keep the business can get new customers, provided the use of the right marketing strategy.

- Adjustment of the range of products. The reduced demand for expensive products forces the heads of organizations to switch to the production of alternative, cheaper products, the demand for which will be much.

- The rising demand for products against the background of import substitution. In the context of the current instability of the dollar and the euro, imported goods are becoming less competitive in the Russian market. Therefore, it is logical to assume that domestic goods will be in higher demand, provided that they do not lose their quality characteristics. Thus, it is possible to gradually replace imported food products with domestic ones. At the same time, it is also necessary to protect domestic producers from imports sold at low prices and the corresponding quality of goods, for example, duties or excises.

- Participation in cooperation. The creation of supply and marketing cooperatives, based on municipal or federal funding, can be a tool to mitigate the effects of the crisis while taking advantage of the opportunities offered by the crisis. Such cooperatives are designed to assist producers in finding customers and entering the food market. Also, entrepreneurs against the background of limited financial resources can develop a network of online trading platforms in order to reduce retail space and optimize costs.

- Optimization of the company's workforce. The management of enterprises is forced to pay the greatest attention to human resources in the context of limited financial resources: efficient workers can count on the preservation of jobs or promotion, and inefficient workers fall under dismissal. Thus, the company has an opportunity to save and increase efficiency of resources using, along with increase of a salary of effective workers. So increased purchasing power and competitive staff are ensured, which generates responsibility for the results of the work and the attractiveness of a particular industry for professionals.

- Reduced financial risk by contracting primarily with reputable counterparties. In the course of carrying out financial activities companies may refuse to make transactions that have the greatest degree of risk as a result of market growth and changes in its structure. This will allow the organization to avoid possible losses.

#### IV. RESULTS AND CONCLUSIONS

Thus, crisis can be seen as an incentive to search for opportunities for development and increase the efficiency of production of business units regardless all the negative sides of this phenomena for the functioning of the country's economy. From the practical point of view, the using of the capabilities of each individual commercial organization in a crisis should be based on the prediction of the impending threats of crisis phenomena and their elimination, leveling or using for economic growth. The growth prospects listed by us are an example of how negative economic factors can be turned into opportunities for the development of companies. At the same time, each business entity should develop a business development strategy and have a mobile financial policy that can be adapted in the shortest possible time in unstable conditions caused by the crisis.

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