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AREAS OF IMPROVEMENT CONTRACTS ACTIVITIES OF MACHINE BUILDING ENTERPRISES OF UKRAINE

This article is investigated the economic-legal basis of foreign relations of entities. Some general trends of the development of machine building industry in Ukraine were given. The production volumes and export sales of one of the machine building enterprises of Poltava were estimated by using factor analysis. Offers to improve the quality of contracts for improving the system of contract management were proposed. The results can be used for improving the quality of management, ensure stable operation of the company, sale products in specified amounts for export, and also to increase the predictability of income and expenditure for the next period. Taking into account all the recommendation, it will ensure a stable financial situation for the machine building plants in Ukraine.

Keywords: *contract, improvement, economic-legal basis, foreign economic relations.*

Arguments in support of the article. Last two decades the development of the world economy was tied significantly with process of globalization. International economic cooperation becomes one of the main factors which influences on the level of economic development of each country and world progress in general. The foreign economic activity (FEA) is a constituent element of such cooperation of entities in different countries.

A company is object of foreign relations, which has economic independence and full responsibility for the results of its activities. It must create a system of administration that would ensure a high efficiency, competitiveness both in domestic and foreign markets, the stability of cooperation through mutually beneficial contracts with partners. A company must create a modern system of contracts work for the normal functioning of

foreign economic activity. This is because drawn up correctly contract is reliable guarantee against losses and prerequisite for long-term operation of the business.

Review of the literature. Problems of organization and management of foreign economic activity of enterprises was studied by such scientists as V. Kozik [1, 2], O. Konovchenko [3], Yu. Makogon [4, 5], O. Shkurupiy [6]. Some issues of development and improvement of management strategies and competitiveness of machine building companies in the world market are shown in scientific studies [7, 8, 9]. Many works are devoted to analysis of foreign trade operations and documentation of international contractual relations, but at the same time the problem of management of contract activity was investigated little. The actuality of further research is development of improving contracts activities for machine building enterprises to increase level of competitiveness in foreign economic activity.

The purpose of the article is to investigate the economic-legal basis of foreign economic relations and develop proposals for improving management of contract activities of the mechanical engineering manufacture of Ukraine.

The main material. International trade is a means by which countries can develop a specialization, improve productivity of resources and thus increase total production. In addition, the development of world trade promotes the spread of new ideas and technologies. China (USD 2,049 trillion), USA (USD 1,547 trillion) and Germany (USD 1,407 trillion) are the world's largest exporters in 2013, according to [10].

The foreign trade contract, or else called international contract of sale of goods is the main document which is used in modern international trade. It regulates the contractual relationship arising during the exchange of goods or services, because it is write down in specific conditions of contract under which a foreign trade transaction is concluded. It also is written confirmation the fact of implementation economic operation. The level of the security company in case of breach conditions of contract or other fraud foreign partner, the timely receipt of foreign exchange earnings or purchased goods depends on quality of international contract. Also, foreign-economic contracts are a "calling card" of any enterprise by which estimated reliability of partner. Study of international experience design and regulation of international contract must be an example

for Ukrainian companies.

The perennial world practice of signing trade contracts has formed certain requirements to their main content. Standard or sample contracts and general conditions to them are used for easy process of drawing up it. They are not a formal document, but are very important when entering into foreign trade agreements. In Ukraine, the procedure for the conclusion and implementation of trade agreements are governed by the Civil Code and the laws of Ukraine. The peculiarity of law regulation of foreign economic agreement is that the parties can determine legislation which country will apply to a specific contract [11]. So, international commercial contracts are related with legislation more than of one country.

The Vienna Convention on international treaties is dedicated to eliminate significant differences in national legislation of regulating the international sales of goods. It defines the main features of the international contract, establishes a list of contracts and services that are not covered by its action. And also it defines the rights and obligations of the parties of the contract, form of contract of sale and remedies in case of breach of contract by the seller or buyer. The participants of the Vienna Convention are over 30 countries.

The investigation of individual differences of contracts allows us to determine that the existence of various laws and legislations complicate international cooperation of enterprises significantly. Thus the analysis of economic-legal elements of FEA showed necessity of further standardization of foreign trade agreements.

The CIS are the main trading partners of Ukraine on the present stage of economic development. They share common strategic priorities such as overcome of economic crisis, integrate into the global economy, information, political and cultural relationships. In commercial practice the CIS are used contracts that are common, have a standardized structure, and have the recommendations of international organizations. The contract must include such binding conditions as: name, number of agreement (contract), date and place of its signature, preamble, the object of the contract, the quantity and quality of goods (volume of works, services), basic conditions supply of goods (acceptance/ delivery of work or services), price and total value of the contract, the terms of payment, conditions of admission of goods (works, services),

packaging and labeling, force majeure events, sanction and claims, arbitration, address, email and payment details of participant. Also by agreement of the parties the contract may have the additional conditions such as: insurance, quality assurance, terms of attracting co-contract agents, terms of transportation, determination standards of loading (unloading), the terms of the transfer of technical documentation for the goods, order payment of taxes, duties, fees, the number of signed copies of the agreement (contract), the possibility and procedure for making amendments and addenda to the contract, and etc.

The final result of foreign economic transaction of any entity is the preparation and execution of the contract with a foreign counterpart. You need to have skill clearly and concisely articulate the basic terms of the contract and allot legally important aspects in different situations that arise as a result of cooperation between entities, have knowledge of international law and practice in this sphere for compile foreign economic contract. Consequently, the system of contract management is very important for the competitiveness of every company.

The mechanical engineering is one of the areas that determine scientific and technical progress of the national economy, provide for technical upgrading, intensification and increasing the efficiency of common production. The share of this sector in the industrial structure of Ukraine is about 30%, which is much less compared to the leading countries.

Last years, approximately every machine building enterprises of Ukraine has reduced significantly the production of major products. The main reason of it is the partial loss the market of sales in CIS countries. Therefore, we need to develop economic ties more actively with the EU and the United States, to improve the quality of goods according to international standards, to expand its sales markets both within the country as in the world, to draw up contracts between counterparties more qualifiedly.

General trends of mechanical engineering in Ukraine are negative. There is low demand on produce on the domestic market. It due to the fact that most companies have gone bankrupt, are idle or produce a relatively small quantity of products. Also, enterprises have lack of working capital. The world market price is not ensuring competitiveness of domestic enterprises. Historically the

main markets of sales are in the CIS. Therefore, Ukraine needs to develop in complex and implement of the national strategy for the development of this industry and achieve the appropriate level of competitiveness in international markets.

The PJSC “Poltava Automobile Unit Plant” is one of the largest machine building enterprises of Poltava, which provides FEA. It is produces and distributes air brake gear for heavy-duty commercial vehicles, spare parts for trucks, tractors, their trailers and buses, trolleybuses and repairs of equipment ordered by the different companies. The plant is produced more than 50 kinds of type goods for assembly of trucks, 110 items of equipment pneumatic equipment of general purpose for industrial process automation. The enterprise exports significant share of produce to foreign markets (over 10 countries), including the Russian Federation (RF), Kazakhstan, Belarus and others [12]. The assessment of production activities of the enterprise allows us to note that the volume of production decreased by 20% (Fig. 1) in last years. Also the volumes of sales are reduced, as a result of accumulation of residues unsold and unpaid produce by buyers of enterprise in warehouses.

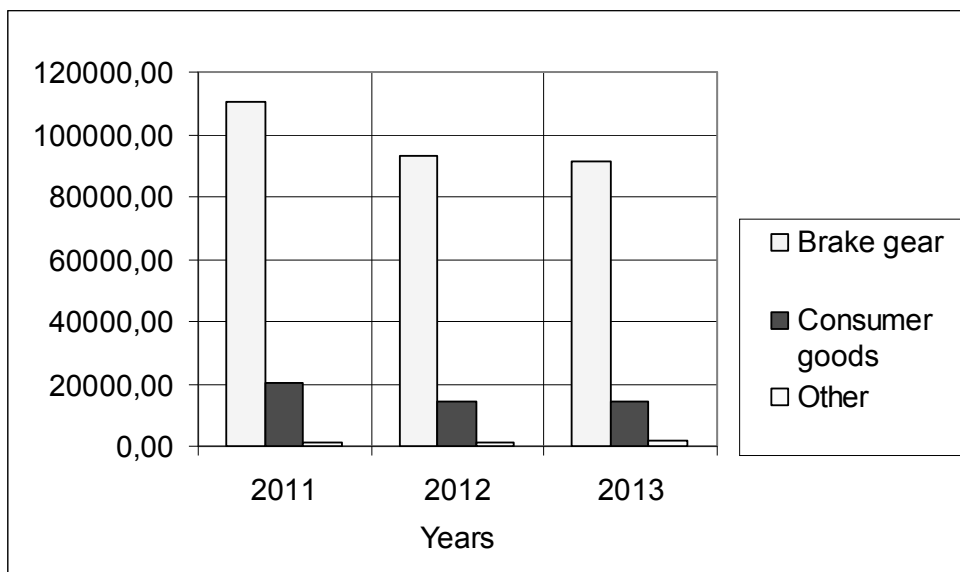


Fig.1. The volume of production goods on enterprise, ths. UAH

The volume of exports is more than 80% of sales. The sales of products to foreign markets have decreased by 14%, including reduction is UAH 10 million

in RF and more than UAH 4 million in Belarus in 2013 (Fig. 2). The volumes of supply are slightly increased in Kazakhstan, but decreased in other countries in the same time. In 2014 the loss would be increased, as a result of the termination of contracts with some enterprises of RF.

So the company needs to improve the system of contract management and focus on the European markets, in view of the unilateral decision to reduce customs duties on Ukrainian products on the EU markets. Earlier the company exported goods by EXW conditions and took the risks of storage of goods for the period of transportation to the final destination. Nowadays the enterprise uses only conditions FCA or CPT of transportation according Incoterms 2000, which are understandable and less risky for the seller. A new version of Incoterms 2010 came into force from 1 of January in 2011. Now all contracts will link to the new version, if the parties don't agree otherwise. The payment method is indicated in the contract as 100% advance payment of the amount of set party, not later than 60 calendar days after customs clearance in city Poltava. The USD and Russian rubles are the contract's currency of company. The prices are free and contractual in the contract. Thus, the structure of foreign trade contract is standard, contains specific information in each chapter and meets international standards.

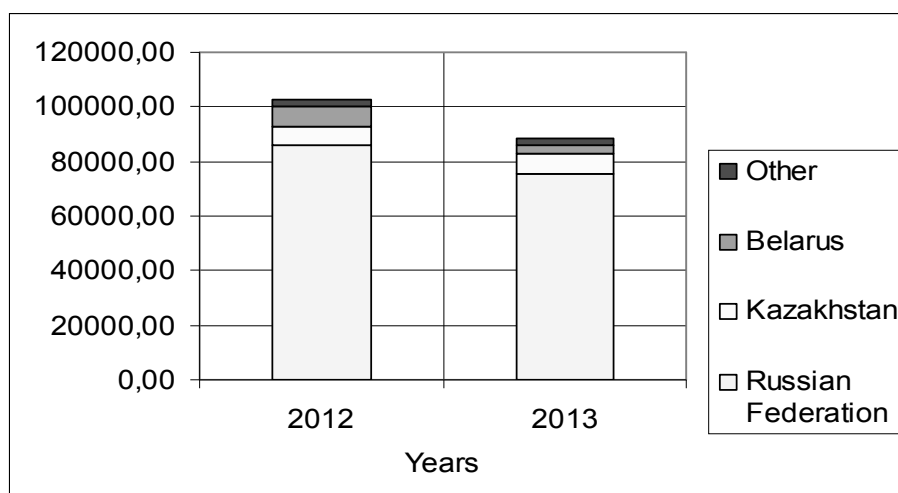


Fig. 2 The volume of exports of enterprise, ths. UAH

The research of influence individual factors on the sales volume for export contracts was made. So it should be noted that the volume of exports have

changed in the result of several key factors such as loss of customers, changes in value of the export contract and their quantity in 2013. The calculation of influence of each individual factor on sales volume of exports was made. We can draw the following conclusions from the factor analysis that the reducing of average amount of one contract has the greatest influence on decline of exports volume (Fig. 3). The decrease quantity of foreign buyers has negative impact on the sales volume too.

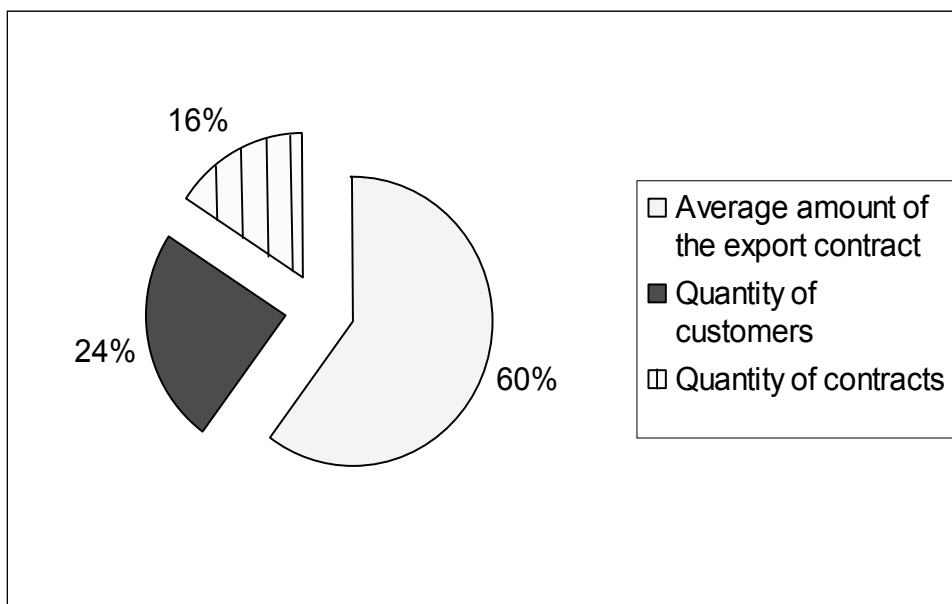


Fig. 3 The influence of factors on the volume of exports

So we can allot some advantages and disadvantages after making analysis of contracts for export of products in terms of contract management on the international market. The contracts clear regulate the rights and obligations of the parties, they always have sanctions in case of non-fulfillment of contractual agreements, guarantee quality and necessarily warranty.

Such contract will guarantee the realization of mutual obligations of the parties if disputes and appeals are appearing. It is a written document that removes the contradiction. The 100 % prepayment and the possibility to transporting products on the CPT and the FCA conditions are disadvantage for buyers. Thus improvement of management of contract activities is one of the

important directions of foreign economic activity of the enterprise. The contracts for export of goods should be compiled qualitatively for ensure the reliability and stability of partnerships and thus create conditions of rhythmical and profitable operation of the company.

The transaction costs are the result of the contracts activity. They are increased with increasing areas of the contracts activity of the company. The breach of contracts conditions is the main cause appearing of transaction costs. The enterprise must keep in mind that violation of the conditions of foreign trade agreements is the cause of litigation between non-residents and residents in carrying out FEA businesses. The detailed analysis of possible risks of contracts activities are needed for finding and identifying ways to overcome their and then its are noted in relevant chapter of the contract.

When equipment are imported, it should be note the total cost of its and cost of services for its installation, considering the peculiarities of the tax policy. The amount of exports goods should to specify in the traditional for it units (pieces, pair, set, etc.). It should define more precisely the terms of contracts which failure may have sanctions in result. Also, it should specify the needs to involve a third party to drawing up an independent document and specify a deadline for filing complaint for avoiding fraudulent practices.

The company's products are specific and required detailed descriptions beginning from name and ending with numbers, which must be clearly defined and meet the needs of the buyer. Therefore, it is important to define clearly the subject of foreign economic agreement, if necessary, make links to samples or technical descriptions to avoid possible complications in the implementation of the agreement and ambiguities in the interpretation of product.

The chapter of contract "The price and the total value" is one of the main sections and is a factor of competitiveness of enterprises. This is because the profit is the main purpose of signing the foreign trade contract. The enterprise isn't offered discounts, and products are exported by free prices. The company should choose more attractive pricing policy of the contract, which would determine by the purpose of foreign trade transactions in order to hedge against possible losses.

The detailed analysis of economic-legal basis of foreign relations and analysis of management system of contract activity allows us to make some

offers for improving the quality of contracts:

- to indicate the total cost of imported equipment and the cost of its installation;
- to use traditional unit of measurement for each product;
- to define a detailed list of conditions, failure of which may result in penalties;
- to develop attractive pricing of contracts for customers using discounts or the possibility of applying different forms of payment;
- to supplement details the subject of the contract, or make links to samples or technical descriptions for avoiding possible complications in the implementation of the agreement and ambiguities in the interpretation of product;
- to include transportation costs in the price of products if company delivers it itself.

Conclusions. Thus these proposals will allow improving management system of contracts activity on enterprises. It allows the enterprise provide rhythmic, stable operation and sale of products in specified amounts on exports and increase the predictability of income and expenditure for the coming period. It allows create the conditions for improving the quality of management, competitiveness and ensuring a stable financial position of machine-building enterprises of Ukraine.

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НАПРЯМИ УДОСКОНАЛЕННЯ КОНТРАКТНОЇ ДІЯЛЬНОСТІ МАШИНОБУДІВНИХ ПІДПРИЄМСТВ УКРАЇНИ

Ю. А. Харченко, М. Ю. Харченко

У статті досліджено економіко-правове підґрунтя зовнішньоекономічних відносин суб'єктів господарювання. Наведено загальні тенденції розвитку машинобудівної галузі України. Виконано оцінку обсягів

виробництва та реалізації експортної продукції одного з машинобудівних заводів м. Полтави з використанням факторного аналізу. Розроблено пропозиції щодо поліпшення якості укладання контрактів для удосконалення системи управління контрактною діяльністю. Отримані результати можуть бути використані для поліпшення якості управління, забезпечення ритмічної й стабільної роботи підприємства та реалізації продукції в заданих обсягах на експорт, а також збільшення прогнозованості доходів і витрат на майбутній період. Це створить умови для забезпечення стабільного фінансового стану машинобудівних підприємств України.

Ключові слова: контракт, удосконалення, економіко-правове підгрунта, зовнішньоекономічні відносини.

НАПРАВЛЕНИЯ СОВЕРШЕНСТВОВАНИЯ КОНТРАКТНОЙ ДЕЯТЕЛЬНОСТИ МАШИНОСТРОИТЕЛЬНЫХ ПРЕДПРИЯТИЙ УКРАИНЫ

Ю. А. Харченко, М. Ю. Харченко

В статье исследованы экономико-правовые основы внешнеэкономических отношений субъектов хозяйствования. Приведены общие тенденции развития машиностроительной отрасли Украины. Выполнена оценка объемов производства и реализации экспортной продукции одного из машиностроительных заводов г. Полтавы с использованием факторного анализа. Разработаны предложения по улучшению качества заключения контрактов для совершенствования системы управления контрактной деятельностью. Полученные результаты можно использовать для улучшения качества управления, обеспечения равномерной и стабильной работы предприятия, реализации продукции в заданных объемах на экспорт, а также увеличения прогнозируемости доходов и расходов на будущий период. Это создаст условия для обеспечения стабильного финансового состояния машиностроительных заводов Украины.

Ключевые слова: контракт, совершенствование, экономико-правовые основы, внешнеэкономические отношения.

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