

# Mechanism of Management of Foreign Economic Activity of Industrial Enterprises

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**Abstract** — Under the influence of transformational changes in the economy, processes of conducting foreign economic activity on industrial enterprises of Ukraine are gradually becoming more complicated. The formation of a management mechanism and the determination of methods aimed at improving the efficiency of the organization of export-import activity will update the choice of this topic of scientific research. In article key problems of formation control system foreign trade activities of enterprises, the main administrative objectives of department foreign trade activities are updated and the foreign trade activities key functions which have are defined to be carried out at the industrial enterprises. It is constructed the organizational and economic mechanism of management and are given scheme of organization foreign economic activity in industrial enterprise in which such functional features as were marked out: Marketing, logistic, tax planning. Major factors of influence on development industrial enterprises are noted, namely: The international dumping, aggressive tax planning of competitors, a condition of aggression environment, sales markets, protection of investors in partner country and stability of a political situation. The complex of measures aimed at stimulating foreign economic relations at industrial enterprises is taken into account. The importance of financial management and tax planning, which are key in the mechanism of management of foreign economic activity of an industrial enterprise, are highlighted. The result from the implementation of foreign economic activity is largely dependent on the introduction of the above stages of the proposed management mechanism.

**Keywords** — *foreign economic activity, industrial enterprises, management, mechanism, export-import*

## I. INTRODUCTION

In conditions of strengthening integration business processes of management foreign economic activity plays a crucial role. For purpose effective foreign economic activity it is expedient to develop mechanism of management which will include all modern aspects sustainable development industrial enterprises on an innovative basis. Processes of management and their improvement foreign economic activity of industrial enterprises promote reproduction export potential of Ukraine, at the same time, promote inflow of foreign investments and exchange innovations and

technologies. The effective mechanism of management foreign economic activity of the industrial enterprises has to provide competitive advantages thanks to introduction of a complex modern methods and forms of international interaction, methods of tax planning and transfer pricing.

## II. LITERATURE REVIEW

Study of foreign economic activity of industrial enterprises and main factors influencing the development of national economy are topical issues of present, solution which allows to strengthen country's potential as a whole.

In work O.A. Gorb, I.A. Yasnolob, N.Y. Protsiuk "Organizational-economic mechanism of management food industry enterprises competitiveness" is devoted to discussion peculiarities of formation organizational-economic mechanism of food industry enterprise management. Brief characteristics social-economic environment of functioning enterprises of industry have been given for determining its desirable parameters. Characteristics of challenges to competitive positions of Ukrainian enterprises in connection with country's entry to "free trade" zone with European Union have also been given. Authors consider solving of touched upon problem in combination of competitiveness management functions and preventive anti-crisis management in single mechanism. Structure of such mechanism has been suggested, and characteristics of its components have been given [2].

M. Voynarenko in work "The latest information systems in enterprise management and trends in their development" noted that today Ukrainian business entities operate in conditions of macroeconomic instability, environmental disturbance, energy dependence on risk of unstable and interrupted supply and high cost of energy resources, excessive energy consumption and inefficient use fuel and energy resources, which requires immediate actions as for finding solutions to ensure energy security [2]. The macroeconomic instability in the world market leaves far beyond external economic interactions of industrial enterprises therefore accounting of economic protection

becomes primary at creation mechanism of management foreign economic activity.

O. M. Palamarchuk in work “Organizational and economic mechanism of enterprise competitiveness management” research formation of organizational and economic mechanism that is capable of ensuring the efficiency enterprise competitiveness management. The goal of research is to determine the most rational way of constructing feedback in organizational and economic mechanism of industrial enterprise competitiveness management for its effective functioning and development. The sequence of stages structural elements formation of organizational and economic mechanism for enterprise competitiveness management in modern conditions is substantiated, directions of solving problem issues in this industry are determined. Article describes a sequence stages of a universal algorithm for evaluation and development of enterprise competitiveness allowing a deep and comprehensive study, preparation and implementation of changes in enterprise to increase its importance in market. For this reason, results of study may be used for practical economic activity, as well as calculation of level productivity and efficiency of enterprises in order to gain the long-term competitive advantages of industries in general [2].

Yevtushenko N. A. in work “Methodological principles for establishment of consulting cooperation organizational and economic mechanism” deals with conceptual principles of consulting cooperation key concepts within organizational and economic mechanism: consulting, cooperation of economic entities, organizational and economic mechanism of consulting cooperation. Based on analysis of literary sources, synergetic approach essence to control subjects of consulting cooperation as an open system is observed. Peculiarities to form synergetic effect of consulting cooperation at different levels management system are studied within organizational and economic mechanism. Synergetic effect consulting cooperation is defined at macro, micro and nanolevel. Synergetic approach impact on formation practical constituent in organizational and economic mechanism of consulting cooperation is proved and interconnection between consulting company and enterprise-customer via communicative space is revealed. Main components of consulting cooperation communicative space are established and their interconnection in consulting cooperation communicative process realization is justified. Recommendations to form qualitative and quantitative criteria in process of consulting cooperation organizational and economic mechanism realization are given [5].

T.I. Alekseyeva in work “Development organizational economic mechanism of management foreign economic activity of enterprise” development and implementation organizational and economic mechanism for foreign economic activity enterprise at present stage of market economy development needs to adapt to changing environmental conditions. This is due to the processes globalization, integration and significant influence of various factors on business outcomes. In article, it is proved an expediency of increasing export potential enterprise, subject to counter negative effects of factors influence external and internal environment. It is revealed that late adoption of management decisions can lead to loss of competitive position of enterprises in foreign markets. The technique of

carrying out a comprehensive analysis foreign economic activity of enterprise to avoid bankruptcy and improve efficiency foreign trade activities is proposed [6].

So, by above-mentioned authors it is carried out thorough achievements on development of mechanism management of foreign economic activity industrial enterprises, however are not in full given the place to tax planning and transfer pricing (reduction of prices on transactions to compliance with market) that will promote strengthening of economic financial security enterprise.

### III. METHODOLOGICAL BASIS

Methodology of study foreign economic activity involves studying the strategic interaction of subjects international relations and their structural units in order to obtain a useful result. Strategic interaction of subjects foreign economic activity depends on qualitative introduction of mechanism management of foreign economic activity of industrial enterprises.

Despite the significant scientific contribution of economists in field of organization and management of foreign economic activity enterprises, at present stage, in conditions of instability economies of the world, the system of management foreign economic activity is increasingly needed.

### IV. CONSTRUCTION OF THE MECHANISM OF MANAGEMENT FOREIGN ECONOMIC ACTIVITY OF INDUSTRIAL ENTERPRISES

Key link in development of industrial enterprises in a market economy is introduction of an effective mechanism for managing foreign economic activity. This is primarily due to resource constraints, technology transfer, and consumption of intermediate products in production chains for purpose of creating added value and products exported for export. Availability and availability of above-mentioned development factors create competitive advantages both for entity itself and for national economy as a whole.

Spread of globalization processes in global economic system has led to formation of a global multivariate environment for implementation of foreign economic activity of enterprises and formation of global markets. Therefore, domestic enterprises are trying to achieve the status of participant in foreign economic relations at mega-level. A prerequisite for this process is borrowing characteristic features and principles of functioning latter.

The main tasks aimed at the formation and effective functioning of the system of management of foreign economic activity of enterprises are schematically depicted on Fig. 1.

Formation of this system should be based on approaches that take into account specifics of foreign economic activity of enterprises, their organizational form formation, territorial affiliation and chosen vector of development in the world economic space. In addition, when forming the system, it is necessary to take into account specifics of enterprises as an integral part of national economic system, subject of world economic relations, mechanism of tariff regulation and to take into account need for adaptation of established system of management of FEA enterprises.

Well-known classic of strategic management, American economist M. Porter said: “In the international market, firms compete, not the country. It is necessary to understand how the company creates and maintains a competitive advantage in order to understand the role of the country in this process” [1].

Activation of foreign economic cooperation industrial enterprises of Ukraine is an important strategic task of country's development. In solving this problem, the key role is played by authorities, since favorable conditions for subjects of foreign economic activity depend on their managerial decisions. Namely, exporters, importers, suppliers, investors and all stakeholders. Complex of management decisions government should be based on carefully designed mechanism of effective implementation and strategy development of foreign economic activity. Activation of foreign economic activity industrial enterprises is the most important prerequisite for stabilization and economic growth of national economy. Therefore, the main task of managing activities of industrial enterprises is development and implementation of an effective management mechanism that strengthens relationship cooperation and allows for creation economic and social effects.

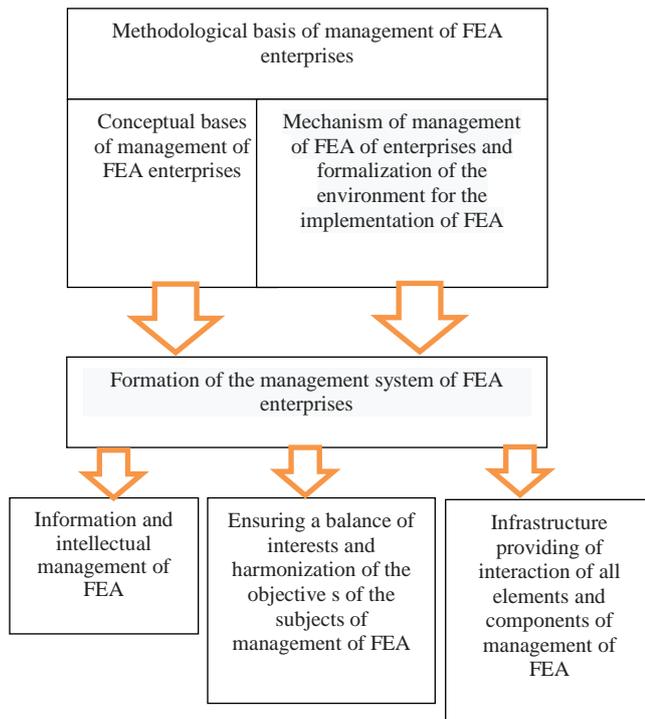


Fig. 1. The tasks of forming a system of management of foreign trade enterprises. Developed according to the data [9]

Foreign economic activity of industrial enterprises covers supply of raw materials, materials, components, operations purchase and sale of goods and services, movement of capital, labor migration, the exchange of experience, skills and knowledge, technology exchange, etc.

The objects of foreign trade enterprises export and import of goods and services, capital and labor.

Subjects of foreign economic activity are: individuals and legal entities, their associations, structural units of economic entities and joint ventures and other entities of economic activity, provided by the laws of Ukraine.

The effectiveness of foreign economic activity (FEA) depends on the effective implementation of key functions department of foreign economic activity. Key functions of foreign economic activity in industrial enterprises are: marketing, responsible for providing export and import supplies in near and far abroad (includes monitoring of markets, forecasting market conditions, export and import of goods, conclusion contracts, financial support of advertising and promotion of goods); logistical, includes the provision of a complex services on export and import goods, organization of transportation, registration of insurance and guarantee documentation, customs clearance; tax planning, including monitoring possible ways of tax optimization and transfer pricing planning. Transfer pricing is a characteristic feature of international market relations. The transfer price is a specific price in the international interaction of subjects of foreign economic activity, which is largely isolated from the mechanism of market prices. An economically correct definition and ongoing monitoring of transfer prices will make it possible to solve the problems of pricing in interdependent industrial enterprises and their structural subdivisions.

According to the Model OECD Convention on Income and Capital Taxes, it states: “if conditions other than those that would occur between two independent entities are created or established in their commercial or financial relationship, then any profit that is absent such conditions could be accrued to one of them, but because of presence these conditions it was not accrued to it, it could be included in profit of this enterprise and taxed accordingly” [7]. According to this interpretation, when organizing foreign economic activity, it is first of all necessary to determine whether subjects of foreign economic relations are associates and whether conditions for their commercial relations are different. This makes it possible to determine whether such operations will be controlled or not. In the case of a controlled transaction between the subjects of foreign economic relations, you should determine your taxable income in accordance with principle of “outstretched hands”. The effective operation of foreign economic activity depends on the success of the enterprise, and hence the stakeholders of the enterprise. Stakeholders can be both internationally (from other countries) and in the middle of the country.

The main tasks facing the head of the department of foreign economic activity today are: expansion of the market of products, services at the national borders in order to increase profits; purchase of raw materials, materials, components, new technologies and equipment; search for best practices and engineering services for production needs, taking into account their uniqueness, superior quality and lower prices in comparison with the domestic market; attraction and effective allocation of foreign investments in order to modernize production, strengthen export potential and competitive positions on world commodity markets; international cooperation and partnership, based on the international division of labor, specialization and cooperation of production in order to achieve sustainable development of the enterprise. Organizational-economic mechanism of management of foreign economic activity of the enterprise is depicted on Fig. 2.

Analyzing organization export activity of large industrial enterprises of Ukraine, there are significant differences in their structures from classical schemes construction foreign economic activity of enterprise, which, on the one hand, is explained by the lack of experience in organization of management, and on the other hand, perhaps specific purpose of managers. One of the peculiarities of the organization of the system of sales of export products is that the marketing department takes on its unrelated function - direct sales of products for export to countries close to foreign countries. On the other hand, among the tasks of the department of foreign economic relations are those that are characteristic, in general, for the marketing department.

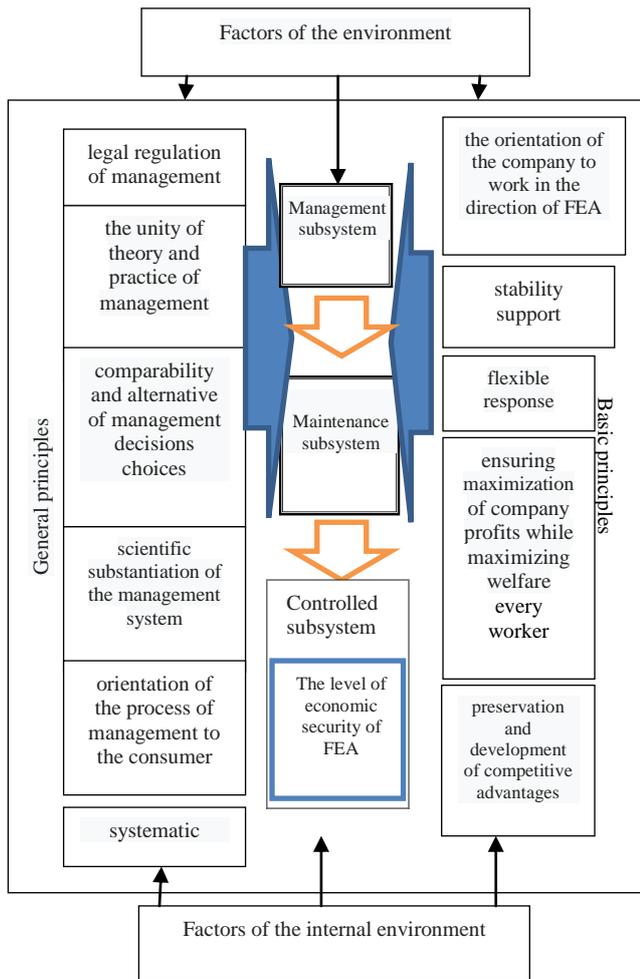


Fig. 2. Organizational-economic mechanism of management of foreign economic activity of the enterprise. Author's development.

Features of management foreign economic activity is need to allocate and consolidate responsibility centers of functions employees involved in provision of sales activities enterprise, divided by functional characteristics. Responsible persons for sales of products for export in near and far abroad, as well as to domestic market and structured according to types of products. Marketing and contracting officers who will fully ensure the performance of marketing functions and contractual work by product type. Responsible persons for organization of transport, will be engaged in customs clearance of export supplies, as well as management delivery of products to their destination. A separate element of management structure is sales activity,

that is, responsible persons for resolution of trade disputes - legal department, which conducts consideration, arising from emerging contractual claims that arise, from company from its partners, from the enterprise - to its suppliers and consumers, anti-dumping processes, violated against the enterprise. In addition to the controversy, there is also unfair competition: dumping imports, which are subject to anti-dumping measures; subsidizing imports to which compensatory measures are applied; other actions recognized by Ukrainian legislation on unfair competition. The legal department should investigate the actions of competitors and detect all latent manifestations of dumping. A clear division of functional responsibilities will make it possible to avoid problems of duplication of certain functions and confrontation of the responsible ones with regard to the completeness of the exercise of their powers. To solve this problem, it is proposed to develop, on the basis of existing units responsible for the marketing of products, a structure that would combine the positive sides available in independent export departments and those that are part of the general sales department and neutralize the factors, negatively affecting.

That is, in the conditions of many markets, bundled assortment of products sold in one market segment, high export volumes, it is necessary to form an export division so that marketing and sales activities in regional markets are carried out in parallel and form a single system, which is responsible for export products to a specific market. The scheme is shown on Fig. 3. Thus, in overall structure of management foreign trade activity enterprise, organization of export activity enterprise occupies an important place, although import operations are also essential for further development, but in economic activity sales of products are primary importance. Improvement of operations on tolling raw materials in order to increase their efficiency should include focusing on the latest achievements in scientific and technological progress, involving the latest production and management technologies, reducing the production cycle, reducing unproductive costs of working time, improving productivity, etc. Elimination of the above-mentioned shortcomings will considerably increase the efficiency of contract work of light industry enterprises operating on the basis of the customer's raw materials, including industrial enterprises, will enable to increase the economic effect of the enterprise. In assessing the level of efficiency work foreign economic activity enterprise, external and internal factors of influence on functioning of industrial enterprises are taken into account. It should also be noted that in process of making a managerial decision main factors influencing the development of industrial enterprises remain: international dumping, aggressive tax planning competitors, state of aggressiveness markets of sales, protection of investors in partner country and the stability of the political situation. Thus, the effectiveness of mechanism foreign economic activity management is inherent in the high level of implementation organizational business processes, namely: monitoring of markets, forecasting market conditions, efficiency export and import goods, contracting, financial support of advertising and promotion goods, organization of transportation, registration insurance and guarantee documentation, customs pricing, implementation of tax planning and transfer pricing.

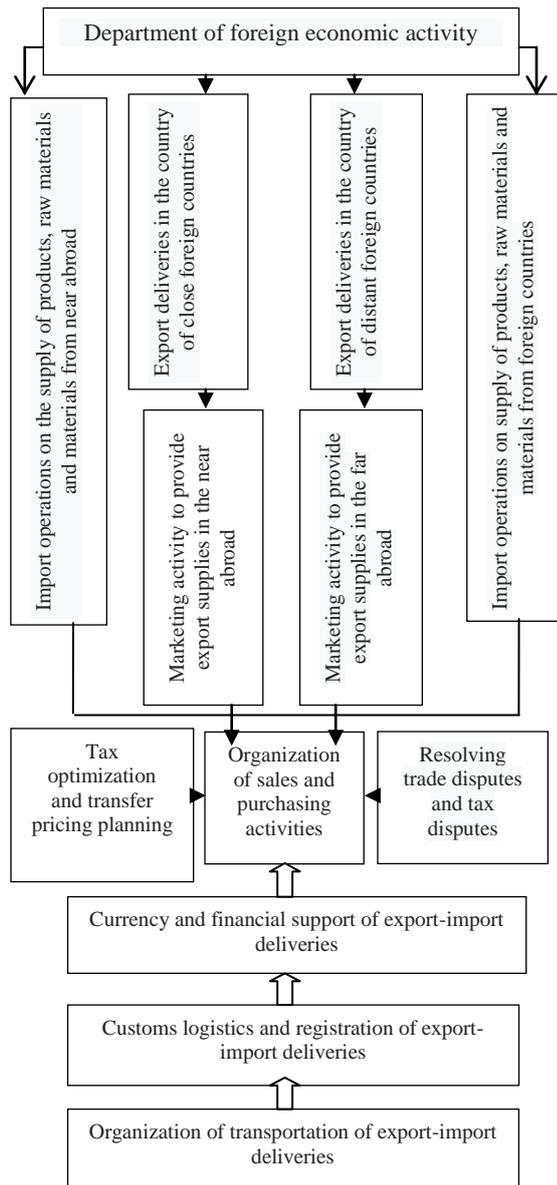


Fig. 3. Scheme of organization of foreign economic activity at an industrial enterprise. Author's development..

## V. CONCLUSIONS

By results of a research, by authors it was developed mechanism and scheme of organization functioning of department foreign trade activities at the industrial enterprises in which such functional features as were marked out: Marketing, logistic, tax planning. It will give further the chance to concentrate attention on strengthening of effectiveness conducting foreign trade activities by the industrial enterprises and their interaction "to communications with stakeholders.

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