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N.V. Yarovaya, O.V. Vorkunova, N.V. Ryabovolenko
CONTROLLING – COORDINATION INSTRUMENT FOR MANAGERIAL
DECISION-MAKING ON PRICING

Odessa National Maritime University

Odessa, 34 Mechnikov St., 65029

The present article dwells on necessity to implement controlling at port facilities as the most progressive management concept and instrument enabling optimization of pricing control.

Keywords: controlling, pricing formation, free rates, seaports.

The Law on Seaports in Ukraine has been adopted and has come into force, which is a positive factor for development of the port industry in Ukraine aiming at increasing the competitiveness level of Ukrainian ports at the international market and improving investment attractiveness of the Ukrainian economy on the whole and of the port sector in particular. At the same time implementation of the port reform gave rise to numerous challenges, including those predetermined by imperfection of the national laws and necessity to change management instruments in port industry.

One of the key roles among various kinds of business management leverage belongs to prices and price formation.

According to the Law of Ukraine «On Prices and Price Formation» economic agents shall make use of the following [1]:

- free prices;
- government-controlled prices.

Before the Law of Ukraine «On Seaports in Ukraine» came into force, the government exercised price control in the port industry for the following services:

- port dues (ship dues, channel dues, light dues, berthing, anchorage, administration and sanitary service), to be paid by ship-owners [3];

- work package tariffs on processing of foreign trade and transit cargoes at sea and river ports (at berth): lump sum rates on cargo handling operations, payment rates for use of berths for transshipment of cargoes carried out by customers and at their expense; ice dues collected from cargo owners, etc. [5];

- dues and charges for services provided to foreign-going vessels at seaports (berths) of Ukraine (pilotage, tariff for vessel traffic management service, mooring tariff, tariff for tug-boat service, tariff for use of floating facilities, payment for agency services, supervisory reward), collected from ship-owners.

Other services not listed in the regulations [3;5], as well as cargo storage service have been offered at free rates .

Article 21 of the Law of Ukraine “On Seaports in Ukraine” stipulates the following [2]:

1) Tariffs for specialized services offered at seaport by natural monopolies and services, payment for which is included in imposed port dues, shall be subject to government control exercised by the national committee for government transport control. The Cabinet of Ministers of Ukraine shall determine the list of such specialized services;

2) Tariffs for services, other than the above, shall be free and shall be stipulated in an agreement between the economic agent offering respective services and the customer.

Stevedore services have not been included in such a list, and according to the Law of Ukraine «On Seaports in Ukraine» prices for such services shall not be subject to government control and may be formed on a free basis.

The Resolution of the Cabinet of Ministers of Ukraine (CMU) № 1544 of 12.10.2000 was repealed by the CMU Resolution № 407 [4] of 03.06.2013. The Order No. 316 of the Ministry of Infrastructure of Ukraine (MIU) of 27.05.2013 does not contain any significant changes in comparison with the previously valid CMU Resolution № 1544. Collection procedure and rates of port dues have remained the same.

However, it is worth dwelling on the situation with tariffs on cargo handling operations, ice dues, and other dues and charges collected from ship-owners.

In accordance with the Article 21 of the Law of Ukraine «On Seaports in Ukraine», Orders of the Ministry of Transport of Ukraine (MTU) under № 392 of 31.10.1995 and № 214 of 27.06.1996 have become void for all seaports, other than fishing ports, whereas the MTU Order № 392 of 31.10.1995 is still valid for river ports.

However, no regulations repealing the above orders at seaports have been published. To date, there are projects for repealing the MTU Orders No. 392 and No. 214 for seaports [8; 9] published at the web-site of the Ministry of Infrastructure of Ukraine. Thus, there is duality in regulations stipulating rating of port services.

On the one hand, rates for a number of services not subject to government control according to the Law of Ukraine «On Seaports in Ukraine» may be determined by business entities independently, and on the other hand, all businesses should conform to the rules stipulated in the Tariff Book approved by the MTU Order No. 392 of 31.10.1995, since it is a valid regulation.

In this connection, a number of stevedore companies apply work package tariffs on processing of foreign trade and transit cargoes at sea and river ports (at berth) following the Tariff Book approved by the MTU Order № 392.

However, one should not forget that management of any stevedore company is entitled to impose free rates on cargo handling operations, which can possibly create a situation, when different charges will be imposed on transshipment of cargoes of the same description at neighboring berths of the same port depending on the operating agent. So, it is difficult to define feasibility and efficiency of such a reform, especially in the view of social consequences. Thus, there is a conflict of laws relating to imposition of rates at Ukrainian ports, which requires standardization of the national laws.

In the second half of 2013 experts from the State Enterprise «Administration of Ukrainian Seaports» (SE AUS) commenced work on development of pricing techniques for the port industry. So the rate calculation technique for icebreaking is

being developed. The new schedule of ice dues will be different from the previous one. In the previous years ice dues were collected from cargo owners, rates depending on cargo traffic during compulsory ice campaign or actual ice campaign (announced by the harbour master). And according to the new technique, ice dues will be collected from ship owners depending on vessel unit (the way it is done with port dues).

Special attention should be given to charges for mooring easement. According to the Law on Ports there are basic organizational and legal forms and mechanisms for businesses in port industry. The Law stipulates a list of agreements, which can be a ground for business activities connected with use of port infrastructure and implementation of investment projects. Such a list includes both previously used mechanisms (lease, joint activity) and a concept of concession, totally new for the port sector, as well as other types of agreements drawn up on the ground of special procedures defined by the laws of Ukraine [2].

After the Law on Ports has come into force, easement agreement was defined as a basic mechanism for attraction of investors, due to time-consuming and complex nature of drawing up lease and concession agreements.

On June 12, 2013, SE AUS approved an order under № 6 «On Mooring Easement Rating (mooring infrastructure) for berths on books of the SE AUS». Special tariffs are applied to use of berths for transshipment of fluid cargo. Easement payment schedule approved by the order of the SE AUS does not allow for volumes of actual transshipment, seasonality, or any other factors having an impact on the scope of cargo traffic.

Current management conditions at Ukrainian seaports call forth numerous problems and issues caused by both external and internal factors. Complexity of the situation lies in fundamental reorganization of the port sector. Basic reorganization element shall be termination of all existing state-owned seaports and creation on their basis a two-level state-owned port infrastructure with distribution of managerial functions and provision of port services (stevedore functions).

SE AUS, consisting of the central administration in Kiev, operation office in Odessa, 18 branches at seaport administrations, Delta-Lotsman (pilot) affiliate and Search and Rescue at Sea affiliate, shall be vested with managerial functions.

In the course of businesses' adjustment to new management conditions, the significance of pricing policy shall increase, and objective necessity to make adequate managerial decisions on price application comes forward, which can be done only if there are available operating data on internal capacity of the business entity and external situation on the market at the time of decision-making. Based on foreign experience, it is safe to say that price formation control can be optimized through implementation of controlling system at the business entity.

Controlling is generally defined as a system of business management aimed at accomplishment of operative and strategic goals and achievement of specified results, and consisting of informational support, planning, control and analysis.

The main purpose of controlling is focusing management process on business goal achievement. Tasks of controlling are as follows: planning, record keeping, control and regulation. To fulfill specific tasks, controlling ensures performance of the following functions:

- definition of business goals in qualitative and quantitative terms, choice of criteria for evaluation of achievements (*definition of goals*);
- determining strengths and weaknesses, opportunities and threats (SWOT-analysis) of a business entity, developing business strategy, business plan as a quantitative expression of business goals with indication of ways to achieve them (*planning*);
- providing for operation record-keeping of financial and economic activity of a business entity (*operation records management*);
- dataflow integration for minimizing degree of uncertainty (*dataflow integration*);
- tracking processes taking place in a business entity in real time through drawing up operation reports on business results for maximum short periods, comparison of obtained results with the planned ones (*monitoring*);

- evaluation of business performance in comparison with planned performance, analysis of opportunities for achieving planned objectives (*plans, results and deviations analysis*);

- recording and evaluation of facts occurring in the business entity (*control*).

Business entities in Ukraine enjoy support of certain controlling functions, however there is no interconnection, and hence there is no controlling system per se.

Adequately developed controlling system would address the following issues in the business entity [6]:

- sorting dataflow, enabling timely receipt of data concerning additional profits and eventual losses while providing specific services;

- minimizing risks of making non-optimal managerial decisions on the whole and regarding price formation in particular;

- ensuring feasibility of strategic plans, increasing efficiency thereof, optimizing pricing policy;

- exposing economic reserves and releasing additional resources;

While implementing controlling mechanism and performing controlling functions, one might expect optimization in the following:

- improvement of payment discipline, and, as a result, increase in turnover of funds, decrease in the scope of credit resources, savings on costs, profit from investment of released financial resources;

- creation of reserve funds, prevention of speculative damages and inefficient use of funds;

- prevention of penalties, decrease in operation expenses, audit expenses, and probability of negative consequences;

- increase in labour capacity and release of economic resources.

Implementation of controlling system in the port industry as a totality of modern management techniques and instruments required for anticipation of future threats and achievement of predictable prospects based on the system of adjustment to constantly changing conditions, shall facilitate improvement in efficiency of both price formation and the overall process of economic activity management.

References:

1. The Law of Ukraine «On Prices and Price Formation» № 5007-VI, as amended on 05.01.2013.
2. The Law of Ukraine «On Seaports in Ukraine» № 4709-VI as amended on 11.08.2013.
3. CMU Resolution «On Port Dues» of 12.10.2000, № 1544, as amended and supplemented.
4. CMU Resolution «On Amendments to par. 2 of the Addendum to the Resolution of the Cabinet of Ministers of Ukraine, of December 25, 1996 under № 1548, and On Recognizing Certain Resolutions of the Cabinet of Ministers of Ukraine as Void» of 03.06.2013 under № 407.
5. MTU Order «On Approval of the Tariff Book for Cargo Handling Operations at Ukrainian Ports» of 31.10.1995 under № 392, as amended and supplemented.
6. I. Kasperovich. Controlling as an Instrument of Efficient Price Formation / Kasperovich I. // Chief Accountant. Price Formation. –2007. – № 4., internet resource: <http://busel.org/texts/cat3kz/id5wweynd.htm>

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