

QUASI-INSTITUTIONAL FORMATION OF A CONTROL ENVIRONMENT AFTER THE EXAMPLE OF THE BULGARIAN BREWERY INDUSTRY

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ABSTRACT

The development of a modern management science is accompanied by clarification of a number of views and formulations. Some of them are related to the issues of management control and particularly to its strategic aspect, based on shared values and ethical standards. The purpose of this paper is to broaden the understanding of the control environment as part of the system of strategic corporate control. In particular, it offers an extension of its scope with the ethical norms and values formed on a quasi-institutional (branch) level after the example of a particular sector from the Bulgarian industrial reality – the brewery industry. The study contributes to better understand the role and the place of the meaningful self-regulation as a management philosophy and a way of doing business in traditional (from a development point of view) activities.

KEYWORDS: *strategic control, control environment, management, brewery industry.*

JEL CLASSIFICATION: *M14; M21*

1. INTRODUCTION

This paper presents shortly the specific features of the internal organizational control based on shared values, accepted ethical standards and self-regulation. In particular, it examines the role of the control environment as a prerequisite for the implementation of strategic internal control functions. The paper also explores the possibility of extending the control environment with norms and values launched and adopted at the so-called quasi institutional level, whereas the analyses and conclusions are based on a study of a specific Bulgarian sector – the brewery industry.

2. OVERVIEW OF BASIC THEORETICAL ASPECTS

Very often, the specialized literature overwhelms us with different views and comments, given the thematic of interest. However, on topics concerning the internal organizational control the opinion differentiation is relatively poor. There is a large consensus on the specific tasks being performed by the internal control or on the way this should be done. At most, the internal control is committed to setting formal targets, monitoring processes, measuring performance and taking corrective action. Additionally, the paradigm of internal organizational control is normally constructed in a way that corresponds to the developing processes, whereas the idea is to continuously seek a connection with the essential characteristics of this management function.

The main alternatives to the internal control are relatively well represented, too. The first one is related to the subordination of the overall activities to some predetermined rules (management by rules). The second one requires self-control and is based on shared values that build the foundations of an organizational culture.

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The control mechanism based on predetermined rules requires a preliminary discussion on all the possible options that respond to any probabilistic situation so that the personnel from example knows how to act in case of a particular situation. This type of control is centralized and involves making a large number of internal guidelines, procedures and schedules.

The control mechanism relying on shared values and organizational culture builds on expectations and interests. The latter have strong influence on human behaviour. In terms of cost, this type of control is less expensive, but more difficult to achieve, as it is associated with a long-term selection, training, approval and approbation of employees (Papazov, 2006).

The management of an organization normally perceives the internal management control as an entity with strategic and operational dimensions (Nikolov, 2004; Papazov & Mihaylova, 2012). This is because it is the management's responsibility to achieve strategic objectives through directing of tangible, intangible, financial and human resources necessary to achieve those goals. Moreover, for managers the internal control looks like a feature that covers a wide variety of areas including standards, procedures, and activities designed to ensure the intended goals of an organization.

The internal control is called upon to keep eye on all actions that can be used to monitor management activities including reporting all important internal and external events (IIA, 2003a, p. 40). In other words, management is the only body that should cope with adverse circumstances or take advantage of sudden opportunities. Having this in mind, the internal control helps management to determine whether the organization fulfils its social responsibilities, legal obligations, etc. In this sense, the implementation of an internal control system related to professional skills, expectations, perceptions, attitudes and values, including organizational culture, is a must.

A thorough reading of contemporary scientific publications with a positive resonance in the international practice will reveal that there are five interrelated parts (elements) of the internal control: the control environment, the risk assessment, the control activities, the information, communication, monitoring systems (IIA, 2003a; Simeonov & Lambovska, 2011; Ivanov, 2003; Mihaylova, 2006). Such an interpretation is confirmed by the current practical guidelines, manuals and instructions to all forms of control. In general, the components are applicable to any organization, but in different ways and in a varying degree, which ultimately depends on the size and the specifics of an organization.

This paper focuses on the **control environment**, being an important element of the organizational culture. It determines the attitude to control, especially from a strategic point of view. The control environment is most often defined as the basis for all other components of internal control systems, as it imposes discipline and organization. The control environment also depends on the choice between one of two alternatives – the control based on defined rules or the control based on values, organizational culture and outspoken communication.

Under the guidance of the Professional Practice Framework approved by the Institute of Internal Auditors, the control environment includes opinions and actions for the management including the importance of the organizational control (IIA, 2003b). The control environment provides the discipline and the structure necessary to achieve the purposes of internal management control. According to the aforementioned source control environment includes elements such as integrity and ethical values, management philosophy and style of work, organizational structure, evaluation of powers and responsibilities, policies and practices in human resources, competence of staff.

The formation of a control environment is usually done at an institutional (intern) level. But there are also examples that demonstrate a creation of control environment taking place outside of an organization, at the so-called quasi institutional (branch) level. The idea is to bring those explicitly originating ethical norms and values later in the organizations – members of the professional community. Such a case study offers the brewery sector in Bulgaria.

Since the approach is not typical, but seems to be interesting and useful for the practice, this paper attempts to cast light on the topic. Of course, the study cannot get round the fact that the control environment is one of the elements of the internal control system and it is difficult to assess it

because it requires not only an analysis of internal organizational documents, but also direct observations on the behaviour of target organizations (Ramos, 2004).

3. FORMATION OF A CONTROL ENVIRONMENT ON A QUASI INSTITUTIONAL BASIS – THE EXAMPLE OF THE BULGARIAN BREWERY INDUSTRY

The quasi institutional formation of a control environment for the companies belonging to the Bulgarian brewery sector is rooted in the overall sector's development during the last two decades, as well as in the role played by the Union of Brewers in Bulgaria (UBB).

The Union was founded in 1991 as a non-profit association to protect the interests of the Bulgarian brewery industry attracting all major manufacturers of beer and beer-related products as members. The up-to-date list of organizations belonging to the UBB includes all large beer manufacturers such as "Bolyarka – VT" PLC, "Zagorka" PLC, "Kamenitza" PLC, "Carlsberg Bulgaria" PLC, "Lomsko pivo" PLC; associated members such as "Malt" PLC, "Bulmalt" Ltd., "Ice Technic" Ltd., "Beril Zh" Ltd., "Bulhops" Ltd., "Diversystem" Ltd., "Ikar Bedzhev & Co.", "APV Bulgaria" Ltd, "Chemko International" Ltd., "Sigroteh" Ltd., "Trimexservice" PLC, "KHS Zagora" PLC, "Rastal" GmbH – Germany, "Actual Industries" Ltd., "Novoservice" Ltd., "IK Zhanet 45" Ltd., "Microspectar" Ltd., Institute for Cryobiology and Food Technologies – Sofia, University for Food Technologies – Plovdiv; and the honorary member Mr. Petar Paunkov.

About 82% of the domestic beer market share is made by brewers with dominant world position such as Heineken and Carlsberg or by companies possessing established continental brands (such as Molson Coors). The contemporary production and market capacity of the industry include:

- nine breweries;
- two independent malt producers;
- one company producing hop pellets;
- two research units – the Institute for Cryobiology and Food Technologies – Sofia and University for Food Technologies – Plovdiv.

The production of beer requires annually the processing of approximately 120,000 tons of malting barley and over 450 tons of natural hops and hop products.

The production and consumption of beer over the years shows an upward trend, although in the last three years have seen a decline (Table 1). The product structure includes light and dark beer, whereas the range includes over 80 positions. The local production of eight licensed trademarks is a proof of the confidence and authority the Bulgarian brewery industry has in the world family of brewers.

Table 1: Sales of brewery companies – members of the Union of Brewers in Bulgaria

Year	Sales of beer in hectolitres realized by UBB members	Beer consumption per capita in Bulgaria
2005	4 224 951	61
2006	4 778 155	68
2007	5 306 489	74
2008	5 373 298	73
2009	4 872 480	67
2010	4 815 000	68

Source: Union of Brewers in Bulgaria (2012)

The above presented breweries employ ca. 2900 people. With the employment of the ancillary activities in the sector the number reaches 12,000.

Among the important indicators of a successful business development reported by the Union of Brewers in Bulgaria is the sum invested in productive assets or spent for innovation, branding, advertising, training and development of human resources in the last 10 years. Additionally, the investments related to renovation and modernization of the sector were over 550 million BGN, from which 2007 alone – more the 60 million, and 2008 – more than 90 million BGN.

The observations of economic performance and sustainability concerning the development of the sector show that the brewery industry is able to manage the business responsibly with view of society. Studies in this regard emphasize the relatively new practice for Bulgaria to implement the principles of self-regulation of the business communication and to actively promote the highest ethical standards related to integrity and ethical values.

Moreover, the self-regulation is adopted as an overall concept for the brewery industry in Bulgaria, not just as one of the approaches. It is a management philosophy and a work style aimed at implementation of a sector's communication strategy. As such the self-regulation becomes part of its control environment, formed on quasi institutional (branch) level.

Such an understanding to extend the control environment at branch level is new for Bulgaria. It stems from the fact that the brewery industry has a conscious obligation to share responsibilities in the communication process between advertisers (brewery companies), advertising agencies and media. In the centre of the overall interest is the adult user (age of 18+ years) who is encouraged to consume products responsibly and to use them sparingly.

Self-regulation exists in almost all countries – members of the European Union (EU). In some of them the system of self-regulation operates for over several decades. Self-regulation takes many different forms in different countries, but its fundamental idea is always the same – advertising must be legal, honest and truthful, prepared with a sense of social responsibility to consumers and society and with due observance of the principles of fair competition.

The role of self-regulation is recognized and encouraged through various initiatives and documents of the European Union. Examples are the texts of the recently adopted Directive “Television without Frontiers” (2007/65/EC) for audiovisual media services, which replaces the previously applied “Television without Frontiers”; the Report from the roundtable concerning advertisements spread by the Directorate for Health Protection and Consumer Rights DG SANCO (2006) of the European Commission (EC); the in June 2007 established Forum on Alcohol and Health of the EU and the European Commission; the White Paper “A Strategy for Europe on Nutrition, Overweight and Obesity and Related Health Problems” (2007) and other documents and strategies.

The only organization in Bulgaria that has adopted the self-regulation as part of the control environment of the industry is the Union of Brewers. The recognition of the Code of Responsible Commercial Communication and Ethical Standards in 2005 marks the beginning of the self-regulatory system of the brewery industry in the country.

Currently, brewers have one of the best practices developed in the self-regulation in view of advertising, sponsorships and events to promote beer, which is recognized by the Bulgarian and European public institutions and NGOs. The promotion of the idea for self-regulation is realized through the project “Establishment and Strengthening of the Sectoral Capacity for Self-regulation in Business Communications”, financed by the OP “Administrative Capacity”. The approval of the project and its funding by the European Social Fund and the budget of the Republic of Bulgaria is evidence that self-control policies towards commercial communications in the brewery industry is recognized by the state administration as a reliable mechanism to protect the public interest.

The obvious external support for the development and promotion of self-regulation and co-relations between business, institutions and society marks a change in driving forces shaping control environment. The results of the above mentioned project show that in the preliminary studies (before the start of the project) 56% of the surveyed enterprises in the industry did not know the topic of self-regulation of commercial communications, 16% of respondents did not apply ethical

standards in communicating with consumers using hard to assess and control their environment. After completion of all stages of the project, including training, 92 percent of the surveyed enterprises in the fast-moving consumer goods and advertising industry became familiar with the principles of self-regulation of commercial communications and were ready to integrate them in their control environment, formed on branch level.

The self-regulation is an alternative approach to a restrictive legislation that governs the commercial communications of industrial organizations. The reason for applying the first is the fact that the usage of the second appears to be slow, expensive and often difficult to understand by users. This means that good ideas promoted by the administration and the legislation might be less relevant for the practice.

In contrast, the self-regulatory mechanisms provide users a quick, uncomplicated way to address consumer pretensions. The key to self-regulatory practices and mechanisms is the pre-consensus in the industry where advertisers, agencies and media voluntarily agree to comply with certain general principles of communication with the public, respectively the consumer groups of the goods or services.

The two approaches, however, should not be perceived as mutually exclusive. It is now widely accepted that the self-regulation works best in a legislative framework. In other words, legislation and self-regulation complement each other to achieve a result that neither of them can achieve alone.

4. CONCLUSIONS

The control environment plays an important role for the systematic development of the internal control in business organizations. The traditional understanding is that such an environment is created under the influence of internal factors (among them the most influential is the management itself). A concrete study of the Bulgarian corporate reality shows, however, that a crucial intervention shaping the control environment stems from external rather than internal impulses and, to be more precise, from the established branch association (union). The result is common actions of all companies from the sector on important social and business issues.

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