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## Farm management in the light of the cross-compliance requirements

**Abstract.** The paper presents main issues in managing implementation of the cross-compliance requirements on the microeconomic level, i.e. in an agricultural holding. Important areas of requirements that were introduced within the cross-compliance mechanism in 2004 are discussed. Cross-compliance means the dependence of obtaining EU direct payments in their full extent on meeting by a farmer some standards and keeping to some rules. This mechanism initiates some processes in agricultural holdings which are called processes of adjustment and which can be repeatable. Management of adjustment processes combines functions of management such as planning, organizing, directing and controlling the obtained results. Adjustment of the agricultural holdings receiving direct payments is related to the management of these holdings in accordance with established rules (standards) that operate as cross-compliance requirements.

**Key words:** management, management functions, process of adaptation, agricultural holding, cross-compliance.

### Introduction

The mechanism of cross-compliance is a result of the European Union's Common Agricultural Policy evolution. In 2004, within the Fischler reforms, four mechanisms were introduced [Oskam et al 2010]:

- progressive modulation, i.e. reduction of financial support for the largest agricultural holdings,
- financial discipline, i.e. no possibility of exceeding fixed financial limits,
- decoupling policy, i.e. separation of the direct payment amount from the size and structure of production,
- the cross-compliance mechanism, a linkage between the direct payment amount and meeting some requirements by a farmer.

Therefore, since 2004, receiving direct payments by holdings in the European Union has been linked with the management of holdings in accordance with requirements concerning good agricultural practice, environmental protection, food safety for consumers, animal health, plant protection and animal welfare conditions. These requirements were called cross-compliance and they consist of three so-called areas of compliance. Their satisfying conditions the possibility of obtaining direct payments in full extent [Oskam et al

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2010].

In Poland, as a result of negotiated conditions, cross-compliance is implemented gradually, as follows [Dostosowanie... 2009]:

- area A which consists of environmental protection of rural areas, it has been in force since 2009
- area B which contains requirements of food safety, animal health and plant protection, it has been in force since 2011
- area C which deals with animal welfare conditions, it will be obligatory from 2013.

Cross-compliance requirements also include norms concerning animal identification and registration (animal traceability), soil maintenance according to the so-called Good Agricultural Practice, and also occupational safety and health requirements (OSH) for people who work in agricultural holdings [Minimalne... 2010].

These requirements have not been created for purpose of the Common Agricultural Policy reforms, but they are the standards which should have been met for several years by farmers who run agricultural holdings and receive direct payments. The newly introduced element concerns only the linkage between direct payments and compliance with a number of obligations and norms [Oskam et al. 2010]. The cross-compliance mechanism thus means that a farmer has to fulfill certain obligations included in the areas of cross-compliance in order to receive direct payments in full extent. The main condition is to follow the Good Agricultural and Environmental Conditions (GAEC) and above that the Statutory Management Requirements (SMRs). Another new element is the introduction of both the control system and charging sanctions.

Each Member State was also obliged to inform farmers about the requirements and the sanctions resulting from negligence. Additionally, due to the complexity of this mechanism, the European Commission made it mandatory for all member states to establish the so-called Farm Advisory System in order to help farmers in adaptation to the new rules. The Farm Advisory System in Poland has been based on existing agricultural advisory structures of agricultural extension service, mainly public advisory centers, but also private consulting firms. The implementation of cross-compliance in Poland has been introduced by [Kania i Kielbasa 2011]:

- Ministry of Agriculture and Rural Development which is responsible for the implementation of the Farm Advisory System; it approves the legislative acts, delegates tasks and assigns functions
- Agency for Restructuring and Modernisation of Agriculture which performs informative, implementation and financial functions in the cross-compliance implementation process; additionally, it is involved in carrying out inspections (controls) and also examination of the complaints lodged about inspections reports
- Foundation of Assistance Programmes for Agriculture which organizes contests for management of some specific measures of Rural Development Programme or other aid programmes, verifies, evaluates and selects projects, and finally transfers the funds after the approval by the Ministry of Agriculture and Rural Development
- Agricultural Advisory Centre in Brwinów which along with three offices in Kraków, Poznań and Radom prepares advisers to farmers; it specifies the methodology of extension and documentation for all advisory bodies and it is also

appointed to carry out inspections of private extension bodies operating on the basis of an accreditation by the Ministry of Agriculture and Rural Development

- 16 agricultural extension service centers located in each voivodeship that provide to farmers services connected with the adjustment processes, organize training courses for farmers about the cross-compliance requirements and cooperate with the Agricultural Advisory Centre in Brwinów and the Agricultural Chambers
- 16 Agricultural Chambers located in each voivodeship which cooperate in organizing training courses for farmers about cross-compliance requirements
- 60 private consulting bodies (firms), accredited by the Ministry of Agriculture and Rural Development, which provide to farmers advisory services in adapting to cross-compliance.

### **Directing and managing of an agricultural holding**

Management is a process of achieving objectives by using acquired knowledge and available resources [Michalski 2008]. Farm manager makes it by the use of management functions, but some of these functions change their character slightly, due to the nature of farm (e.g. classical motivation function) [Sokołowska 1998]. Farm management connects management functions with the effective use of resources, i.e. human resources (i.e. labour on the farm), financial ones (e.g. cash, savings), tangible resources (e.g. buildings, equipment, means of transport) [Kapusta 2008]. In the management process, an achievement of the objectives through a rational and optimal use of personal, financial, tangible and information resources is sought. Efficient and effective achieving the organization objectives means a way of management that uses resources wisely without wasting them [Roszkowski & Wiatrak 2005].

Due to the possibility of obtaining direct payments by Polish farmers, the farm management goal should be to meet the cross-compliance requirements. Organization and management of holdings apply to such areas as the plant and animal production, human resource management, choice of the specialization, applied technology, organization of the machinery park and finally investment activities undertaken in agricultural holdings. The plant production management and its organization are aimed at obtaining maximum income from one hectare of agricultural land [Fereniec 1999]. This is related, among others, to farmer's choices about plant variety, plant rotation, methods of plant protection and irrigation, and also to the organization of plant harvesting, transportation and storage of agricultural products. Furthermore, the animal production should be run in harmony with plant production, taking into account the use of forage area. The main purpose of livestock production should be to develop the highest income by breeding highly productive beef or dairy cattle, using appropriate amount of nutrients, proper management (distribution) of fodder, adequate adjustment and use of livestock buildings, proper organization and distribution of labour [Fereniec 1999]. Decisions associated with tangible means of productions (investment decisions) are also very important for the household's outcome. They are related to new buildings, modernization of old ones, as well as to supplying the farm with the necessary machinery and equipment. The right organization of human work and effective using of the labour resources also play a vital role. Large agricultural enterprises usually define their organizational structures (e.g. manager, administrator,

foreman, administration department, etc.). In agricultural holdings, however, one person usually performs several functions, and the manager (i.e. farmer) must specify goals, manage his resources, and also focus on achieving these goals in an appropriate way [Leśniak 2002].

## **Management functions in an agricultural holding**

One of the basic duties of the farm manager, as well as the first step of organization, is setting goals and making decisions [Kozmiński & Piotrowski 1996]. Making decisions translates into achieving desirable results, and therefore it cannot be done in a random and unconsidered way.

The decision making involves at first noticing and defining the problem, then analyzing and gathering information about the problem and formulating some possible alternatives, next choosing the best solution and implementing it in practice, and finally controlling the obtained results [Kompedium... 2004]. In a farm management system, we can distinguish the following management functions which are performed by farm managers.

- Planning, which means setting goals and the best ways to achieve them. Decisions made in agricultural holdings must not be taken in a haphazard way and should be well thought over. Moreover, setting specific objectives should become a routine. An agricultural holding is an economic entity and therefore it is guided by the same rules as any other enterprise [Duczkowska-Piasecka 2001]. Farm management involves making such decisions that will allow to select and implement the optimal solutions. This in turn should lead to achieving the best results with the lowest input, if it is possible. The main goal of planning is to gain competitive advantage [Nowakowska-Grunt & Cubała 2007]. In holdings that are undergoing the adjustment processes, these activities should enable farmers to exist in agricultural markets and become competitive.
- Organizing, which means activities aiming to combine resources in order to achieve and accomplish the goals, set specific tasks and finally implement them [Griffin 2004]. One of the manager's tasks is to provide the necessary resources in order to carry out planned tasks. In very small and small holdings, organization is aimed at planning tasks for the members of the family.
- Leadership or managing, which means exerting a direct impact on workers, by using the technique of effective communication and motivation [Misztal 2008; Kozuch 2000]. In an agricultural holding, apart from delegating the tasks to other member of his family, the owner (or manager or tenant) often undertakes them by himself.
- Control, which is based on comparing the obtained results (outcomes) with objectives that were formulated earlier, so this is an evaluation of the degree of goal achievement. A control comprises four areas of organization: tangible components (products and production), personnel (staff), information (analyzing and forecasting) and also financial aspects (debts, financial ratios) [Drucker 2005].

As in any other enterprise, farmers must be able to anticipate in their agricultural holdings the market needs. They should produce in accordance with the demand and effectively adapt their farms to the standards and requirements established by national laws and regulations resulting from the membership in the European Union. Farmers decide not only on the production and investments, but they also make decisions that affect the members of their families. Therefore, their decisions contain emotional elements which result in various problems in management. The farm planning process can be affected by two types of barriers [Zarządzanie... 1998]:

- organizational problems arising at the moment of preparing the tasks
- the attitude of people (members of the family) working in the farm (i.e. the manager who is the farm owner and his family members).

The farmer is thus the manager whose job is to plan, organize, lead and control, and therefore we can say that every farmer is a planner, organizer, leader and controller [Sokołowska 1998].

### **Farm management leading to meeting the cross-compliance requirements**

The farm management means making decisions by the farmer (manager). Their optimization requires knowledge, concerning not only processes taking place on the farm, but also outside it, e.g. the European Union requirements related to the farm management. In the decision making process, the checklists created by the Ministry of Agriculture and Rural Development are used. These checklists can be a tool of strategic management in agricultural holdings, because the results show the status of the farm, the degree of compliance, and therefore they are the basis for preparing the so called 'Plan of farm adaptation to the cross-compliance requirements'. Constructing the adaptation plan requires the introduction of additional decision supporting techniques, such as statistical and mathematical methods, agricultural accounting, heuristic methods, and all of them based on opinions of an expert (i.e. the agricultural adviser who works with the farmer). The checklists cover all areas of farm management in the context of adaptation to cross-compliance standards. The agricultural adviser, who assesses a farm, must indicate on the list if a requirement is met, not met, or not applicable in the farm [Minimalne... 2010].

The compliance analysis may be conducted by the farmer himself, but usually this is a result of cooperation between an agricultural adviser and the farmer. Agricultural counseling conducted in connection with the cross-compliance adaptation is the type of individual agricultural extension service. During the on-farm visits, an agricultural adviser at first examines the whole farm, then checks the documentation on the farm, inspects the fields and finally analyzes and assesses animal welfare conditions. An assessment of the degree of compliance with cross-compliance requirements is also the task of the agricultural adviser. The adviser is responsible for the quality of his service, particularly with regard to a correct identification of non-compliances and preparation of an effective reform plan. The adviser does not take responsibility in cases when irregularities had been identified and an adjustment plan was then prepared, but the farmer consciously did not introduce the prescribed changes.

Process of management is a structured series of actions. Therefore, in the process of adaptation to the cross-compliance requirements one can distinguish some stages and elements that interact and follow each other in a strict order. Organization of the management process must concern the creation of organizational structures, transfer of information, regulation systems, and must also cover the functions of management. Management is a process consisting of actions that are functions of planning, organizing, motivating and controlling and they cause changes in some empirical systems, which means that it has its own reference or translation into practice [Stabryła 1983]. Thus, management is an implementation of structured tasks that follow one another in a specified time and are in some way dependent on each other. Managing the process of cross-compliance rules implementation in agricultural holdings comprises several steps. These steps make up a process of adjusting the holding to the cross-compliance requirements and are shown in Figure 1. The first stage is preparing a farm analysis in the light of cross-compliance requirements, using a set of checklists [Centrum... 2012]. The checklists are very important, because they are the tool for implementing cross-compliance standards, as they are used to assess agricultural holdings.

In this way, the degree of adaptation to cross-compliance requirements is determined as well as areas where irregularities have occurred. The result of this analysis is 'Initial report on the agricultural holding condition' (Figure 1). In the case of detection of irregularities, (non-compliances) the agricultural adviser, together with the farmer, prepares 'Plan of farm adaptation to cross-compliance requirements' which contains a description of planned investment activities leading to the fulfillment of standards, of the possibility of obtaining external funds, of action stages and people responsible for them. The necessary actions should be prepared taking into account the resources available in the farm, such as labour, agricultural area, capital and their proper organization. In the implementation of adaptation processes, the aim is the optimal use of possessed resources. It means that at first the so called non-financial input is planned, which is for example the farmer's own work input, the preparation and filling in on-farm documentation, obtaining the required qualifications to run a farm and to apply plant protection products, and also cleaning farm buildings, warehouses and farmyard. An important stage is to prepare a plan of tasks and their implementation, as well as defining the impact of these tasks (or changes) on the whole farm operation (Figure 1). The next step is determined by the function of controlling the process of adaptation to the cross-compliance requirements, which manifests itself in determining the level of implementation of adjustment plan, calculating the measurable and non-measurable effects (benefit and cost analysis) and also preparing the final report of the farm adjustment processes (Figure 1).

The management functions on the microeconomic level, i.e. in agricultural holdings, are affected by many factors, both internal (owned resources and motivations) and external ones (the system of sanctions, the possibility of obtaining funds for investments). Therefore, it can be noted that management of the cross-compliance implementation is a process consisting of many components, including the traditional functions of management: planning, organizing, directing and controlling (Figure 1). The adjustment process, presented in Figure 1, may have repetitive character, namely in a situation, when despite the implementation of "Plan of farm adaptation to cross-compliance requirements" irregularities (non-compliances) still occur, or after some time (e.g. in the next year) other irregularities are detected. Then the farmer returns to the first stage, i.e. the analysis of the

farm situation in terms of the current cross-compliance requirements, and after that he should plan activities or investments leading to their fulfillment.

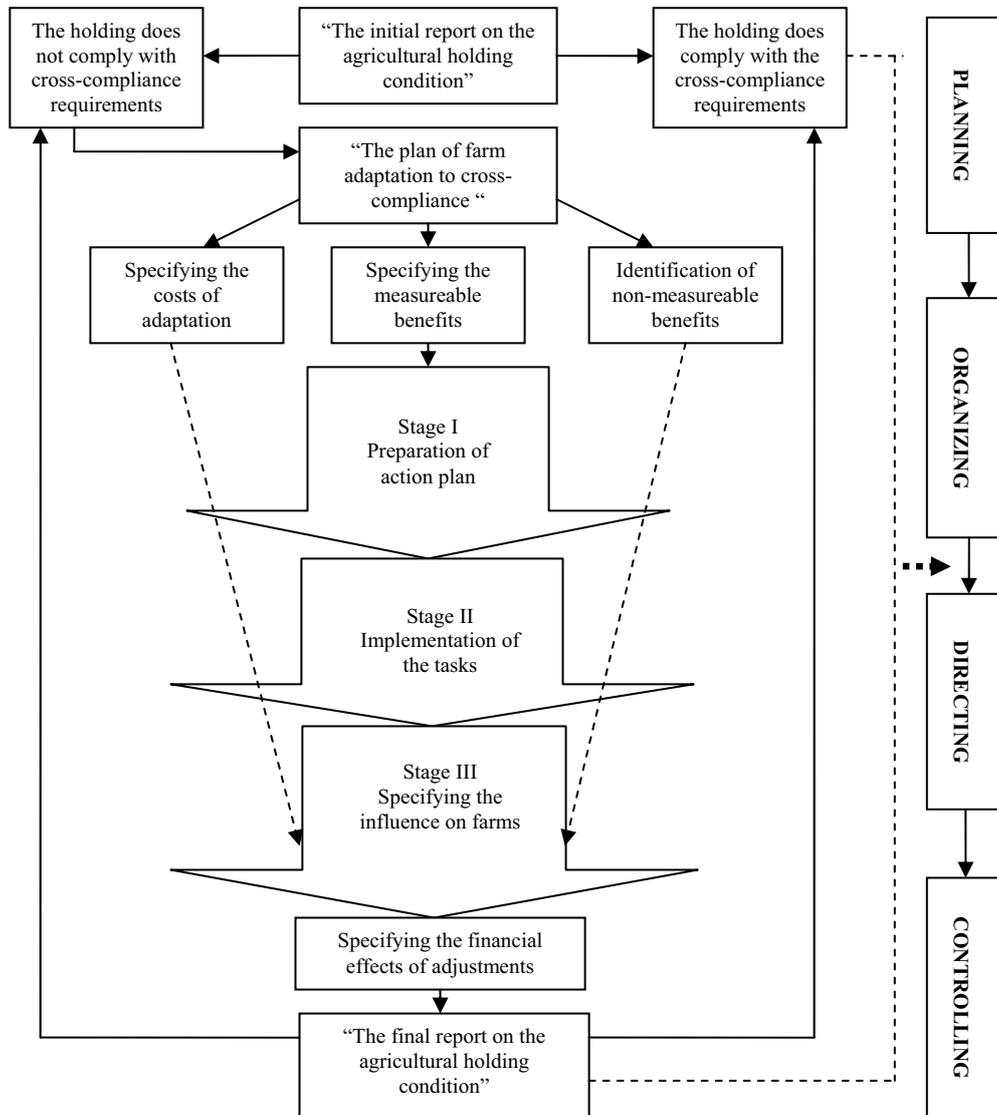


Fig. 1. The process of managing the cross-compliance implementation in an agricultural holding  
 Source: own elaboration based on data from the Agricultural Advisory Centre in Brwinów, branch in Radom.

## Summary

The concept of farm adaptation process, as presented in the paper, refers to an effective management in the situation when farms are involved in the direct payment system. The requirements included in the range of cross-compliance standards are not new for the European Union farmers, because these norms have been gradually implemented beginning with the MacSharry reforms. The new element is the control system and the system of financial sanctions for farmers. As a result, these requirements have become obligatory for farmers, especially since they have been linked to direct payments which are received by the majority of farmers.

After analyzing the implementation process of cross-compliance in Poland at the microeconomic level, it can be concluded that it is and it will be a big challenge for farmers, especially in terms of meeting the standards of animal welfare (i.e. area C of cross-compliance). Poland has negotiated some transitional periods in order to give Polish farmers some extra time to adjust to these new standards. The implementation of cross-compliance requirements is based on performing the management functions by a farmer. It includes an analysis and evaluation of farm condition using specially prepared tools (i.e. checklists), then preparation of alternative solutions, selection of the best solution and finally realization of some "repair tasks" on the farm. Thus, the aim is a full compliance with the cross-compliance requirements.

Farm management in the context of adjustment processes is a case of strategic management, because it affects not only the present state (status quo) of the farm, but it also should apply to the future conditions. In some cases, this will require extra financial expenditure on investment activities. Thus, very small and small agricultural holdings should be excluded from the controls and sanctions. They usually produce for meeting their own consumption needs and the adjustment processes might be too expensive for the farmers to be fully implemented. This will result in their utter elimination from the agricultural market, but in general these farms use most of their products to meet the needs of the family. On the other hand, non-compliances will not occur in very small and small agricultural holdings, or will occur on a small scale, which does not endanger the health of consumer supplied from the market. Therefore, in those farms implementing cross-compliance standards will not require additional financial costs.

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