Effects of normalisation on the organisation and structure of enterprises in agriculture

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1 Context

During the past two decades, Belgian and European agriculture were confronted with several crises, BSE, dioxins and foot-and-mouth disease. These crises affected the consumers confidence regarding food safety. This confidence crisis also introduced requirements concerning the environment, animal welfare and the production method in general. The government reacted to these crises with the introduction of several new norms who aim to limit the risk. First systems to guarantee the traceability were developed and a consequent implementation of food legislation from farmer to plate was aimed. De organisation of self-regulation and the transfer of product liability to intermediaries and primary production are thereby the main principles. At European and national level, an agency for food safety was established, respectively the European Food Safety Agency (EFSA) and the Federal Agency for Food Safety.

This evolution had also consequences on the complete food chain and caused a restructuring with the establishment of the industrial columns for agriculture, milk, horticulture and flesh. The pushing forces of the new legislation, self-regulation and product liability, influenced intermediaries, distributors and processors to develop specifications and standards that were imposed to the surrounding links. Examples are the codes for good agricultural practises imposed by the distribution and processing companies to supplying farmers, Good Manufacturing Practice-codes for feed factories, HACCP and ISO norms in the food industry, etc.

The research studied the consequences of this evolution on the company organisation and structure in agriculture and searched to which changes this led at sector level.

2 Questions

Most norms that were elaborated and applied recently are a direct consequence of the crises known in the food sector. Yet, we can't limit us to this kind of statements, because the processes also summon several questions.

A first question concerns the costs of standardisation in general: control and certification. If the farmers have to pay these costs, this could lead to a decline of the farms cost-effectiveness and under certain circumstances to their exclusion. If other parties, like retailers, transformers or consumers, have to bear the expenses, this could lead to a durable change of the market price.

A second question concerns the credibility and efficiency of the control. The actual situation tends to produce strongly decentralised initiatives with a declining involvement of the State. The certification and control organisations became important actors, but are the controls the same for all concerned companies, large or small? Are they done by independent and competent organisms? Aren't the controls influenced by factors such as the current market situation?

A third and last question concerns the application of the norms by the farmers. Do the norms take into account characteristics as the age, the scale or organisational form of the farm, the economic efficiency or the degree of specialisation? Can mixed farms be confronted with several norms and controls at the same time and so they lead to an increase of the production costs and to difficulties concerning the daily management of the company?

The previous paragraphs proved that all kinds of questions can be asked about the current standardisation process. Yet it can't be forgotten that the process also offer chances to certain farmers. Contracts for example: although are imposed by retailers or processing firms, they often guarantee the marketing of the produce and the income. Labels offer the possibility of a higher price and substantial advantages like the image of the company, the quality of the produce and in certain cases the image of agriculture in general.

3 Results

This research was conducted in two phases. In the first phase an inventory of the existing standardisation (both legal and other initiatives) was made for 5 Belgian sectors (milk, vegetables, fruit, beef and pork) by means of literature study and interviews. In the second stage 319 surveys were conducted with Flemish and Walloon farmers. Their answers were processed statistically and analysed with the programme SPSS. We will present here the most important results of the survey. The wide variety of standardisation approaches and norms observed led us to classify them by the degree to which they restrict the farmer and the level of supervision they impose on farmers who join such schemes. In the case of buyers' initiatives, these generally impose their production systems or best practice guides, and do little to ensure their application. At the other end of the spectrum, initiatives such as quality labels are based on farmers voluntarily joining, even creating, such operations, and this involves organisational and training activities. ‘Chain’ standardisation approaches fall somewhere between these two. Accordingly, we have two poles: farmers who are not involved in any standardisation approaches at one end, and those involved in quality label operations at the other. Between these two you find ‘buyer’ and ‘chain’ standardisation approaches.

This classification seems relatively valid in that it matches the different farmer profiles and allows us to confirm the hypothesis that standardisation approaches operate in a selective manner. That is to say, those farmers with the greater human and financial resources take up the more demanding approaches.

3.1 RESULTS OF THE INVENTORY

3.1.1 THE STATE'S POINT OF VIEW

The first view comes from the State. The State is the one that passes multiple laws intended to establish the best methods of managing a sector where recurrent crises have sapped consumer confidence. The State also supports self-regulation by distributors and makes them legally responsible for products on the market. These twin objectives are to be found in most European and Belgian legislation. The State also organises negotiation sessions and instances to facilitate the introduction of specific systems of management. The main push of the political authorities is to move steadily towards making it obligatory to apply standard risk management systems such as the HACCP method. The authorities retain their role as organisers of negotiation sessions, while retaining oversight of the control procedures. Risk management systems are also more and more linked to traceability. The Belgian situation is further complicated by the fact that responsibilities for agriculture have recently been divided between the federal and regional authorities.

3.1.2 THE MARKET'S POINT OF VIEW

The second point view is that of the market middlemen, mainly distributors and processors. Their main feeling is that the State is steadily disengaging and transferring responsibilities to them. The latter do not deny their responsibilities, but seek, however, to remind the State of its own responsibilities. The distributors seek effective controls that would guarantee a high level of product safety. This can be seen as a fair return of the ball, particularly by the distributors and processors who have been the main recipients of responsibility under recent legislation on civil liability for defective products. Distributors want the State to establish both effective and relevant controls and to undertake at least their supervision, if not their management. The current reforms, in particular the regionalisation of responsibility for agriculture, the scrapping of the Federal Agriculture Ministry, and the establishment of the Federal Agency for Food Chain Safety, are often questioned under the three headings of efficiency, simplicity and flexibility.

Comparing the viewpoints of the State with those of market intermediaries tends to be more and more a question of their mutual expectations. It is true that in Europe in general, and in Belgium in particular, we have a certain idea of the role of the State that does not quite fit with the policies currently being introduced. This idea tends to make the State responsible for conceiving and organising the market, as well as being responsible for any of its failures. However the current situation is much more marked by a transfer of responsibility from government agencies and departments to market stakeholders.

3.1.3 THE FARMERS' POINT OF VIEW

The third point of view is that of the farmers. Farmers find themselves at the crossroads of - and sometimes in the crossfire between - the pressures generated by the different European, national and regional legislative measures. This feeling has been amplified by recent initiatives from processors and distributors as a result of the new regulatory landscape created by the public authorities and the transfer of regulatory responsibilities to the market stakeholders. These pressures vary, but contribute to a general feeling by farmers that their voice is not heard; yet they are constantly designated as being responsible for the failings of the market. This feeling is common to the conventional, or larger, farmers, and the smaller farmers, who point out that the legislation is not adapted to their small-scale production and that the risk factor varies in function of the size of the farm unit and the scale of production carried out. In the same way, organic farming finds itself divided between those who favour extensive family farming with close relations to consumers and short production cycles and those who argue for more intensive farming working with industrial clients and different market intermediaries. This is particularly the case for beef production, where those pursuing the traditional markets are taking this second route.

3.1.4 THE CONSUMERS' POINT OF VIEW

The fourth point of view is that of the consumers. Consumers are certainly sceptical and more and more cautious when it comes to food. Consumer organisations and groups argue for national or European legislation that should be coherent in terms of risk management and consumer information. These bodies fear that the multiplication of standardisation systems, particularly in terms of attributing labels, will be detrimental to the quality of produce, and thus to consumers.

We can observe that, in conclusion, the increasing standardisation of agriculture and food production is taking place in an environment where different demands and different approaches meet but do not always agree. This leads us to the second conclusion drawn from our inventory, namely, that standardisation and the application of norms are far from being uniform, and differ according to which stakeholder are behind these developments.

3.2 RESULTS OF THE SURVEY

A Social Selection Effect

The first conclusion from our analyses is that in moving from one of the above poles towards the other, one finds different farmer profiles and that this is repeated, with some variations, in every production sector. This conclusion is confirmed in most production sectors.

In short, farmers who do not participate in any standardisation approach tend to be older, with less formal education, are less commercially efficient and less engaged in the various professional networks and associations. Life and career trajectory factors can be added to these socio-economic, or capital-based, ones. So, such farmers often do not have a clear successor. When it comes to organisational factors, they often work alone on the farm and thus have less disposable time. Finally, there is the specialisation factor, for they are often engaged in only one form of (non-contractual) production. The selection effects of standardisation approaches are multifactoral, and are seen as being the final element in a generally unfavourable professional climate or as something completely removed from the farmer.

Special Sectoral Characteristics

In our analysis of the specific characteristics of each sector, we first show the particular profiles of farmers according to the types of standardisation approaches in that sector. We, however, also present some characteristic opinions that distinguish one or the other category from the general trend.

In the dairy sector, there are two standardisation schemes, *i.e.*, the IKM and the older AA norm, which is (in our sample) always combined with the former. Those farmers who are not engaged in either norm conform to the general results in that they tend to be older, have less training, and participate less in the various professional associations. Those farmers operating within the IKM and AA standards have similar profiles, but the AA farms are usually larger and more intensively farmed than their IKM counterparts. AA farmers have obviously been involved in this 'quality standard' for some time, and on a voluntary basis, while the IKM farmers were encouraged to adopt this standard by the dairies. This may explain why AA farmers are generally more involved, and more satisfied with their situation. Farmers already involved in the AA standard found it much easier to adapt to the new IKM one.

The vegetable production sector is quite specific. Those farmers who are not involved in any standardisation approach are normally younger and better trained, even if, as with other sectors, they are less involved in the various professional associations. The vegetable sector is very heterogeneous in terms of its production structures. Those farmers who grow vegetables for industrial clients generally farm larger holdings on which vegetable production is only one part of their activity, and 'buyer' standards are set by the industrial clients. These farmers are generally favourable to production contracts with industry, but they are sceptical about labels. Those farmers involved in ‘chain’ standards (such as Flandria) are, unlike their mixed farming counterparts, sceptical about industrial contracts. Finally those who grow produce under glass, with very small but intensively farmed holdings due to production characteristics, are also sceptical about contracts and appreciate the advantages offered by label systems.

In the beef production sector, the profiles of those farmers not associated with any standardisation approach match the general trend (older, less trained, lower gross margins, and less intense production than the average). Farmers involved in ‘buyer’ standardisation approaches seem a little less integrated in agricultural society, and are critical of contracts and labels. Those involved in ‘chain’ standardisation approaches generally farm larger holdings. A particular characteristic of this sector is that those producing under label schemes do not match the general profile pattern: they are generally older, less trained and less supported. These are, however, very intensive production units with low gross margin. They are quite specialised producers who were very badly hit by the crisis in the beef sector and for whom the introduction of quality labels may offer a hope of regaining profitability.

The pig-rearing sector has its own special characteristics. Those farmers outside standardisation and quality label approaches are usually smaller mixed farms - which echoes the general picture. On the other hand, farmers participating in ‘buyer’-led schemes are younger, more specialised, and own only a small amount of the acreage that they farm. Those involved in ‘chain’ systems are a little older, have their succession better assured, reasonable gross margin and operate high-intensity (per ha) holdings. Finally, those who produce under label systems are less specialised, often active in professional associations, have a higher level of training, and operate less intensive (per stable) holdings.

The fruit-growing sector has its own special characteristics, too. Growers participating in quality label schemes (like Fruitnet) tend to operate more extensive holdings due to specifications, but are also more specialised and achieve better financial results than their counterparts who are not part of such schemes. In a number of cases these holdings are operated as family units. The fruit-growing sector is thus easily distinguished from the beef sector - a sector where standardisation approaches tend to result in more intensive farming, which is often less profitable. These are quite specialised producers, as in the beef sector. However, the function of the quality label is not primarily an economic one in terms of boosting sales, but more one of improving the commercial performance of the growers through developing more environmental-friendly production models in general.

There are thus special characteristics in each sector, which means that the relationship between farmers and the overall sector are not identical: the milk sector is concentrated in a handful of large firms, while the meat sector is much less concentrated. There are also special conditions, such as the crisis in the beef sector that seems to have convinced intensive farmers to seek a quality 'label'. These general tendencies are, however, to be found across the different sectors - standardisation approaches tend to almost exclude those farmers with fewer human and economic resources. The 'buyer' organised standardisation approaches would seem to attract the more specialised farmers who are less involved in their professional associations.

Some Remarks on Selection Factors.

Although our sample is too small to undertake the kind of detailed multivariate analyses that would enable us to estimate the relative impact of different factors, we can make the following remarks about the process of selection.

First of all, it is clear that the different standardisation approaches make differing demands in terms of time, capital, and training investments. It is the availability of these factors that is important. It is also clear that the difficulties that the less well endowed farmers face could be offset, at least in part, by supportive and guidance or management, whether such initiatives come from public bodies or the private sector. Nevertheless, a group of older farmers, without successors, will probably remain outside the standardisation approach system.

The time factor would seem to exclude a certain number of farmers who work alone from the standardisation approach, which is one that demands a time investment, partly in training, but above all in terms of record-keeping and following procedures.

The degree of specialisation within the farm may be a factor, as mixed farms can more easily take the risk, or make the effort, to adapt a part of the farm to production under a standardisation approach. For more specialised farms, such a decision impacts on the whole farm and all the work to be carried out. Usually specialised farms adopt standardisation approaches when they are ‘buyer’ ones, and thus imposed from the outside. It is worth noting that ‘bipolar’ farms take a middle approach between the two cited above, and that the farms that are engaged in mixed farming are the ones most involved in standardisation approaches - and in the most demanding of those approaches. Accordingly, we can argue that farm specialisation makes farms more dependent and less easily able to adapt to changing demands imposed by the increasing number of quality control initiatives.

There is finally the sectoral ‘crisis’ factor, which suggest that certain farmers, provided that they are well established, can develop quality initiatives and above all specific quality initiatives when they are forced to do so by the failure of intensive farming methods in a declining market.

It is important to emphasise the ‘type of organisation’ factor in the sense that the most demanding standardisation approaches (labels) demand better support and training. We think, based on observations in the fruit-growing and meat sectors, that either voluntary participation or organised support structures can help compensate for the difficulties which certain farmers encounter when joining quality schemes that have their own administrative and/or technical requirements.

Standards and Norms as seen by Farmers

It seems quite clear that farmers' relations with standardisation approaches and the role of the State are closely connected. It is interesting to analyse how farmers view different ‘models’ of standards and norms, and to ask if their adoption of one or other of these models is connected to a particular view of these standards and norms.

Agricultural opinion is quite unanimous on many points, in particular on its desire for State support. It is also generally suspicious about contractual relations with buyers, primarily for reasons connected with independence.

It is more surprising to note that labels enjoy a very positive image with a very large majority of farmers. Labels are seen as a method to rethink their place in society as they associate labels not just with quality, but also with environmental considerations and the good image of agriculture as such.

4 Conclusions and recommendations

A first conclusion of this research is that the whole process of norms and standards is developing a high profile on the market through brands and labels. This tendency, parallel to the development of legal standards, reinforces the role of private market actors, particularly of market intermediaries in the definition of both quality and security. The political question that must be asked here is what is the role of the State with reference to this process, which is a form of privatisation/commercialisation of quality. It is clear that farms want an increased role for the State, or protection from the State, just as the better-placed farmers tend to opt for standardisation approaches that work to their advantage by giving them negotiating power.

Accordingly, three scenarios can be envisaged:

- disengagement of the State from setting norms and standards, leaving this to the private sector ('commercial' scenario);
- re-engagement of the State in designing, implementing and enforcing compliance with norms and standards ('Statist' scenario)
- re-establishment of an area for negotiation among farmers and the agricultural professions, the State, and market intermediaries to test changing norms and standards based on the label experience ('experimental' scenario).

While the 'commercial' scenario is the most probable, because of economic constraints and the relative weakness of the public authorities, it however remains possible for the State to play a role, on the one hand to help farmers, including the most vulnerable ones, to adapt to the development of standardisation approaches, and on the other hand to play a proactive role in experimenting with new definitions of quality.