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To cite this article: N M Galimullina *et al* 2019 *IOP Conf. Ser.: Earth Environ. Sci.* **315** 022086

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Corporate social responsibility as a factor of increasing the investment attraction of agrarian-industrial business

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Abstract. The research considers the role of corporate social responsibility in the functioning of agrarian-industrial holdings. The research objective is to reveal the potential of corporate social responsibility as a factor of attracting investments to agricultural companies. The author applied the methods of analysis and synthesis. The conceptual basis of the research is the pyramid of corporate social responsibility by A. Carroll and the theory of focused social responsibility by M. Porter. The empirical base includes social accounting of companies and information on financial indicators from corporate web-sites and annual reports of the leading Russian agricultural enterprises. The article presents the specific features of applying the strategies of corporate social responsibility and its key directions most demanded in Russia. The conclusion is made that there is direct correlation between socially responsible behavior and positive perception of a company by investors.

1. Introduction

The contemporary state of the Russian economy is formed under the influence of numerous factors. One of the most important among them is the program of import substitution, adopted in 2014. Agricultural production is the sector which possessed the greatest potential for benefiting from the worsened economic relations with western partners due to political contradictions. Under the food embargo, the Russian agrarian enterprises and holdings acquired marketing advantages, but faced the need to develop production capacities to fulfill the increased demand in goods. Developing economic structures often required loans and external funding sources. One of the ways to solve this problem is to attract investments. Notably, investor relations are a special area in corporate communications. To identify the most promising projects, potential investors thoroughly assess an issuer: the resources available, the financial situation, estimations by financial analysts, sustainable development, and reputation. The contemporary trends of preliminary assessment of a company as an investment object include taking into account the social image of the company and its behavior as a “corporate citizen”. To this end, the company’s activity in the sphere of corporate social responsibility is considered.

Corporate social responsibility is defined as an obligation of a business to voluntarily contribute to the society development, including social, economic, and environmental spheres, which the company takes up beyond what is required by law and economic situation. At the same time, it should be noted



that there are many other definitions of the above notion [1]. The formation of corporate social responsibility (1950-1999) was most fully studied by A. Carroll [2, 3].

Today, foreign research is focused on studying the impact of socially-significant actions on perception of a company by consumers [4] or business partners and investors. The impact of corporate social responsibility (CSR) rankings on analysts' estimations of the future financial indicators was most thoroughly researched in a work by I. Ioannou and G. Serafeim. Using a large sample of publicly traded U.S. firms, the researchers stated that the trend for low estimation of financial predictions to firms with developed CSR prevailed in the 1990-s. On the contrary, today the most reputable analysts mark the direct correlation between the CSR rankings and optimistic forecasts of successful investment [5]. The scholars made a conclusion about negative consequences of tax avoidance, including in the form of worsening reputation in the eyes of investors. In that case, corporate social responsibility as a liability to the society serves as a means to improve the undermined image [6]. At the same time, some researchers are not as univocal in estimating the interrelation between corporate social responsibility and investment efficiency. Thus, the corporate social responsibility impact on financial indicators was studied with the method of extended content-analysis of annual reports of 13 Malaysian state-owned insurance companies for the recent nine years (2008–2017). The results indicate significant relation between the disclosure of information about CSR and the financial indicators; it means that CSR greatly influences the financial efficiency indicators (return on assets (ROA)); whereas correlation between CSR and ROE (return on equity) and EPS (earnings per share) is insignificant [7].

In the Russian practice, the surge of companies' execution of IPO occurred in the 2000-s. Parallel to that process, companies started to take care about intangible value, about improving their reputation through socially-significant projects. Researches summarized theoretical and practical aspects of that process: the main areas of CSR [8], mechanisms of CSR management, including its accounting and analytic provision [9], economic effects of the impact of CSR information disclosure on the equity value of companies as one of the key indicators of investment attraction [10].

At the same time, it is important to take into account the specificity of a company's sphere of activity and how the CSR issues are viewed as an investment factor in agricultural sector [11–17]. Researchers of the experience of enterprises in Zhitomir oblast (Ukraine) highlight the main factors stimulating the implementation of CSR initiatives: globalization of agricultural supply chains, integration of the country in Europe where the CSR conception has been firmly established [13]. Other researchers analyze the bases of CSR strategy for German agricultural enterprises, as well as their influence on corporate reputation and financial indicators. The work is based on the results of polling of 170 German agricultural-industrial companies and applies the partial least squares (PLS) methodology [11]. A research of the organizational structure model "company + farmers", which includes the results of polling of 462 Chinese farmers, focuses on the significance of social aspects [12].

2. Materials and methods

In our research, we chose three agricultural-industrial companies for analysis: "Miratorg" agricultural-industrial holding, "Cherkizovo Group" Public Company, and "Rusagro" Group. The criteria for choosing them were the effective performance and the financial indicators of the companies [18]. The companies for analysis were chosen by the results of 2017, as that year was the most efficient in attracting investment, by the information available. According to Rosstat, 705.5 bln rubles were invested into the agricultural-industrial complex in 2017 [19].

By the results of 2017, the leader of the ranking was "Miratorg" agricultural-industrial holding with receipts of 125 bln rubles. "Cherkizovo Group" grew from the third to the second position in the ranking (receipts – 91 bln rubles), while "Rusagro" fell by one position. "Rusagro" receipts in 2017 decreased from 84 bln rubles to 79 bln rubles due to the losses in sugar production and agriculture.

To analyze the further development, experience of attracting investment and potential of investment attraction of the chosen companies, we studied their corporate web-sites and annual

reports. The accent was made on reviewing the most developed spheres of activity, reflected in a pyramid of corporate social responsibility by A. Carroll. The economic responsibility, underlying the pyramid, is directly determined by the basic function of a company in the market as a producer of goods and services enabling to satisfy the needs of consumers and, accordingly, make profit. The legal responsibility implies the requirement for law-abidance of business under market economy and its compliance with the expectations of the society stipulated by legal norms. The ethical responsibility requires the business complying with the expectations of the society not stipulated by legal norms but based on the existing moral norms. The philanthropic responsibility urges a company to actions aimed at maintaining and developing the public well-being through voluntary participation in social programs implementation.

The approach formulated by Michael Porter in 1999 implies introducing the CSR strategy aimed at specific groups of stakeholders, in order to implement the social projects optimizing the achievement of both financial and social goals in the company's activity. Our research also solves the problem of identifying the areas of socially-responsible activity most significant from the viewpoint of potential investors and shareholders.

3. Results

All companies demonstrate sustainably strong financial results. This said, the companies are oriented towards development, including through investment.

In 2018, the profits of "Miratorg" agricultural-industrial complex grew by 87% compared to 2017, according to the consolidated financial report of the group compiled in line with the International Financial Reporting Standards (IFRS). The company's debt load was 3.3 in terms of Net debt / EBITDA (in 2017 – 3.8).

The dynamics of "Cherkizovo Group" gross profit was 35.5%. The parameter Net debt / adjusted EBITDA was 2.9 (in 2017 – 3.3).

By the results of 2018, the growth of adjusted profit (EBITDA) of "Rusagro" was 16 %, net profit – 131 %. The debt load was 3.36.

Analysis of "Miratorg" corporate web-site (https://miratorg.ru/about/sustainable_development/) showed that the company focuses on four main areas of corporate social responsibility: a responsible employer, training for the youth in special competence centers in the sphere of meat cattle breeding, charity, and environmental protection. Among the factors of investment attraction, the "Miratorg Finance" annual report indicates that all enterprises of "Miratorg" agricultural-industrial holding comply with international environmental standards. The holding cares about environmental protection, actively participates in the social life of the regions where the holding enterprises are located, and adheres to the principles of ethical business.

The corporate web-site of "Cherkizovo Group" (<http://cherkizovo.com/company/#corporate>) reflects the aspects most significant from the viewpoint of the company: charity in the regions where the company operates, career possibilities for the university graduates, cluster of life-long education, bonuses and social provision for employees, corporate culture, protection of labor, health and environment. The annual report of 2018, being a comprehensive document oriented towards shareholders and investors, identifies similar areas of sustainable development, with charity re-oriented towards local communities.

In "Rusagro", CSR activity is most fully presented in the company's annual report and includes a larger number of areas: personnel management, social investments, environmental safety and labor protection, production efficiency, quality management, standards of external corporate behavior and ethics, corruption counteraction, and purchasing.

4. Discussion

The Russian producers continue increasing production both in their traditional and new categories, taking up the niches previously occupied by imported goods. Besides, the low rate of the ruble makes the Russian goods attractive and competitive in the foreign markets, opening new prospects for the

Russian producers. Alongside with the traditionally exported goods such as grain and sunflower oil, the Russian producers started to export sugar and poultry [20].

CSR programs can be viewed as a sign for foreign investors indicating the company's reliability. A sample of the US companies from various sectors (2004–2015) shows that lower dynamic inefficiency occurs in firms with a higher commitment to CSR activities [21]. The authors of a research based on Korean Economic Justice Institute (KEJI) index for 2004–2009 came to the conclusion that the Korean firms actively participating in CSR were more efficient in attracting investment, including in the form of foreign ownership [22].

Our research shows that the largest Russian agricultural enterprises, oriented towards attracting investments, are active in disclosing information not only on financial indicators but also in the sphere of corporate social responsibility.

“Miratorg” company emphasizes two main directions: personnel policy (describing the company's advantages as an employer; the staff training system) and environmental aspect. For example, “Miratorg” thoroughly describes their activities for introducing the advanced systems of biological safety, which minimize the risks of contamination and dissemination of diseases; equipping their factories with high-technology treatment facilities, which exclude the ingress of harmful substances into the environment; providing the observance of the current sanitary norms and production waste disposal standards.

At the same time, A. Carroll's pyramid emphasizes the economic and legal responsibility of a company in the format of describing a company as a responsible large tax-payer.

In the “Cherkizovo Group”, the company's personnel policy is most thoroughly described, including personnel recruiting, system of tutorship, training and development, interaction with the educational establishments, system of incentives, social provision of the personnel and corporate culture, labor and provision of safety at work. A separate area of the company's ethical responsibility is humane treatment of animals. Within the group, there are programs aimed at minimizing the negative impact on the environment and reducing the energy and natural resources consumption.

“Rusagro” Group states that human capital development is one of its four strategic goals. It is worth noting its orientation towards provision of gender equality as a part of personnel policy. The group has a well-developed block of economic and ethical responsibility, declaring that the company's main task is to produce competitive and high-quality goods complying with the legislation requirements and expectations of the consumers. The annual report of “Rusagro” stipulates the standards of external corporate behavior and ethics. The company's ecological responsibility consists in the fact that “Rusagro” pays special attention to complying with the norms of the applicable legislation on environment-protection, rational use of natural resources, introducing environmentally friendly technologies, and complying with the requirements of biological and veterinary safety in the cattle-breeding division.

The philanthropic direction in the form of charity is present in all of the studied companies and includes forms traditional for business structures: supporting orphanages and geriatric homes, taking care of culture heritage, implementing joint projects in the form of public-private partnership.

Also, one should consider corruption counteraction as a part of ethical and legal responsibility, according to A. Carroll's typology. Besides, in compliance with M. Porter's approach, investors as stakeholders of a company are interested in coverage of this issue. This aspect is most fully reflected in the annual report of “Rusagro”. Within the frameworks of corruption counteraction, the company does business only with reliable partners (clients, suppliers, contractors, consultants), who are legitimate and are not associated with corruption. To this end, the company takes all legal efforts to warn them and to learn about their business; takes all possible efforts to prevent bribery in the name of the company by elaborating and introducing a system of adequate procedures; takes all possible measures, stipulated by the legislation, to obtain information confirming the target use of the means allocated by the company for charity and sponsorship; based on the reciprocal principle, cooperates with the authorized bodies, partners and clients in the sphere of corruption counteraction.

Our research results correlate with those of the previous ones. According to the results of the combined research (interview, polling), carried out among individual investors in the stock market of Bangladesh, after the global financial crisis, the following key aspects of sustainable development became more popular when making a decision on investing: environment protection, social and managerial decisions [23]. Activity in the sphere of environment protection deserves special attention, eminently with regard to agricultural companies [24]. According to the Ukrainian researchers, the most significant areas of CSR of agrarian-industrial companies are: maintaining an adequate level of wages and salaries, responsibility when arranging land rent, environmental responsibility due to shaping the production parameters, creating jobs, providing relevant financial reports, etc. [14]. Some researchers note that the most important areas of CSR are human rights protection and ensuring equality, struggling against corruption, and charity [25, 26].

5. Conclusion

The Russian agrarian-industrial complex is going through the period of active development. The consequences of announcing the embargo, devaluation of the ruble, the low level of competition and the substantial state support have formed favorable conditions for developing business in the sphere of agricultural and food production. There are a number of significant effects of implementing the programs of corporate social responsibility. Many of them are related to the companies' market value and the equity value. Disclosure of information on social policy increases the company's reputation, reducing uncertainty and risks when estimating the internal environment. The potential investors and the shareholders should timely receive information on the state of affairs both inside and outside the company. An enterprise should disclose the features of its internal policy, strategies of decision making on the issues of personnel, training the personnel and plans for preparing the staff reserve. Active participation in charity indirectly testifies to the financial stability of the company. Activities aimed at corruption prevention should be reflected in the company annual reports, as investors realize that only reasonable decisions based on objective data can lead a company to the path of effective development. In agriculture, significant areas of CSR are saving production and environmental projects.

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