

# Social accountability of Russian agribusiness

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**Abstract.** Social accountability of Russian agribusiness is currently at an early stage of development. Socially accountable agribusiness helps reducing social tension in rural areas and acts as a reliable ally to the government in executing social programs. The purpose of this research is to prove the necessity of social accountability popularization in agribusiness entities' operation in order to provide high level of competitive capability and stable rural development. Through the research we established limiting factors in development of social accountability in functioning of the agribusiness entities and estimated the level of social accountability among biggest agribusiness holding companies as well as its impact on rural development. As a result of the study we developed measures for expanding corporate social accountability of agribusiness and enlarging its social orientation. The motives of the socially accountable agribusiness are as followed: employee development, working efficiency growth in the company, better company image, reputation growth, stable company growth in the long term, possibility of additional investments.

## 1 Introduction

Corporate social responsibility is currently in its early stages of development for the Russian agribusiness. Only a small number of organisations are implementing socially oriented projects to improve their business image and investment appeal and gain trust of their business partners and consumers. Historically, agricultural organisations have always been actively involved in solving major social problems of the local population, but the bankruptcy and deteriorating financial situation of many organisations has led to social tensions in rural areas. In addition to ensuring food security, physical and economic accessibility of food, the agribusiness has additional obligations to implement various social programmes on a free-of-charge basis. Socially responsible agribusiness implies increasing rural employment and financial welfare; ensuring social protection and equal social opportunities for achieving a satisfactory quality of life in rural areas; reducing the level of criminalization; improving the socio-economic situation in rural areas; harmonizing the interests and needs of economic entities and various groups of the population and

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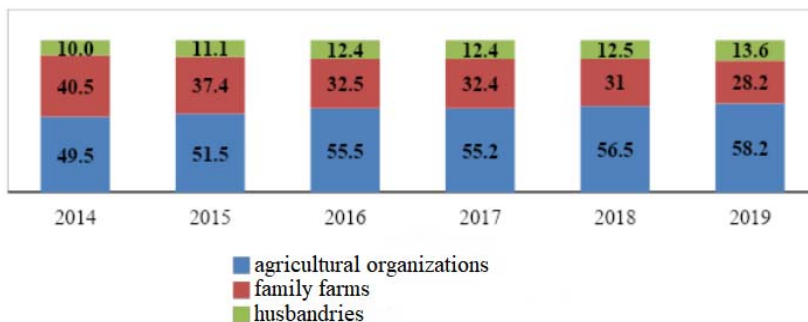
society as a whole; and developing social sectors such as education, health care, science, culture, housing and utilities etc.; ensuring environmental security. Social responsibility of agribusiness can be implemented through company programs, partnership programs with local, regional and federal government entities, programs of cooperation between agribusiness and public organizations, associations and others. The effort of the state to guarantee people all social components of a stable life is not enough, socially responsible activities of agribusiness will contribute to sustainable economic development of rural areas and creation of acceptable living conditions in rural areas. At the current stage, the social accountability of agribusiness is being implemented only in some areas, and there is no comprehensive approach. Existing studies reflect various aspects related to socially responsible agribusiness, but are more theoretical. The problems of social accountability of business require further study and development of applicable ideas for shaping a system of social accountability, and implementing this in husbandry practice of agrarian production entities, the subsequent implementation of their strategies. The above circumstances have determined the relevance of the study.

## 2 Materials and Methods

The study was conducted on the basis of research materials on the development of corporate social accountability in agribusiness. The following research methods were used: the study of various sources of information, followed by data summarization, analytical and comparative methods.

The solution of social problems, improvement of the quality of life in rural areas will be facilitated by the establishment of socially accountable agribusiness, but the existing structure of agricultural production and the financial situation of agribusiness entities are significant obstacles in this regard.

The main producers of agricultural products are agricultural organizations (58.2% in 2019) (Figure 1). The contribution of farms is not that significant, but it tends to grow - it increased by 13.6% in 2019. The share of family farms in production is decreasing and in 2019 it was 28.2% comparing to 40.5% 2014 [1]. Husbandries and family farms have lower profitability due to the low level of production and labor management, marketing policy and sales organization of agricultural products and foodstuffs, low quality and lack of product compatibility, high cost of credit resources and their unavailability. It should be noted that family farms are of high social and economic importance, since they make up about 30% of agricultural products produced.



**Fig. 1.** Agricultural output structure by farm category (actual cost; in % to total).

In 2018 there were 115.4 thousand agricultural organizations, most of which are small business entities. Less than 5% of agricultural organizations (5.2 thousand) are classified as

large and medium businesses, but they produce most of the agricultural products [1]. Large agricultural organizations have high technical equipment, great opportunities to attract credit resources and a high level of labor efficiency. In 2019 the share of profitable agricultural organizations among large and medium-sized agribusiness entities was 73.8%. The amount of profit received increased by 14.6% (302.6 billion rubles in 2018). The share of loss-making organizations was 26.2%. The amount of loss increased by 16.1% (96.4 billion rubles in 2018) (Table 1).

**Table 1.** Financial performance of agricultural organizations, without small businesses, in 2014-2018.

Indicator	Year					2018 to 2014. %
	2014	2015	2016	2017	2018	
Number of organizations. thous.	5.9	5.2	5.0	5.2	5.2	88.1
including:						
profitable organizations	4.3	4.0	3.9	4.0	3.8	88.4
loss-making organizations	1.6	1.2	1.1	1.2	1.4	87.5
The share of profitable organizations in the total number of organizations. %	73.6	77.0	77.7	75.6	73.8	x
The share of loss-making organizations in the total number of organizations. %	26.4	23.0	22.3	24.4	26.2	x
The amount of profit. billion rubles	264.0	337.0	313.4	245.8	302.6	114.6
The amount of loss. billion rubles	83.0	71.7	72.6	74.3	96.4	116.1
Balanced financial results of the organisations (profit minus loss). million rubles	181.0	265.3	240.8	171.5	206.2	113.9
Product (work. service) profitability . %	18.6	21.7	16.4	13.6	15.4	x

The difficult economic and financial situation of many agricultural organizations does not allow them to participate in the social development of the rural areas, which does not contribute to the improvement of living conditions of rural residents, the positive dynamics of changes in the quality of life. The low level of profitability of agricultural organizations' products limits the possibilities of making profit, part of which could be directed to socially important measures. Family farms and husbandries do not have the means to make social investments.

Taking into account the level of income received among agricultural organizations, only agricultural holdings, uniting different in size agricultural organizations and controlling large areas of agricultural land with tens of thousands of agricultural workers, can carry out socially responsible activities. Ensuring the competitiveness of agriculture and demonstrating high economic efficiency and profitability, on the one hand, agroholdings provide numerous advantages for the national economy, but on the other hand, the activities of agroholdings have a negative impact on the socio-economic development of rural areas. Agroholdings, as food monopolists, can increase food prices and have priority in receiving subsidies. At the same time, agricultural holdings prevent the conduct of certain traditional activities in the areas of their location; in pursuit of reducing unit costs they have a negative impact on the environment [2].

### 3 Results

As of January 1, 2019, more than 50 large agricultural holdings were operating in Russia with revenues of over 9 billion rubles. The country's 25 largest agricultural holdings own 9% of all crops, or 7.2 million hectares. On average, one agricultural holding accounts for about 265 thousand hectares of arable land, which in most cases is leased [3].

The five largest agricultural holdings of Russia at the end of 2018 include AIH "Miratorg" (1 million hectares), "Prodimex" (including Agrocultures) (865 thousand

hectares), LLC "GOC Rusagro" (650 thousand ha), JSC "Firma Agrokompleks" named after Tkachev N.I. (649 thousand ha) and agroholding "EcoNiva-APK" (504 thousand ha). The land bank of the five largest agroholdings accounts for 27% of the total land volume of all agroholdings in the country, which indicates a huge amount of land possession [3].

The recent increase in land areas under the control of agricultural holdings threatens the further development of medium and small agribusinesses, which carry the greatest social and economic pressure on providing population employment and developing rural areas. Hence, one of the necessary directions to improve the management of agricultural holdings is to strengthen their social orientation.

Among the five largest agricultural holdings in Russia, information on the main directions of socially responsible activities is provided by AIH "Miratorg", GOC "Rusagro", "Agrocomplex" named after Tkachev N.I.

Miratorg is the largest producer of beef and pork in Russia, and one of the leaders of the country's food industry in general. Fully vertically integrated structure unites all stages of food production [4]. «Miratorg» Holding is included in the "list of backbone enterprises" of Russia, which was created to increase the stability of the Russian economy.

Information on corporate social responsibility within the framework of the sustainable development strategy indicates the Company's interest in social and ethical business conduct. AIH «Miratorg» focuses its activities on the following four spheres: №1 employer in the agricultural sector, youth education program, charity and environmental protection (Table 2).

**Table 2.** Spheres of socially accountable activities of AIH «Miratorg».

<b>№1 employer in the agricultural sector</b>	<b>Youth education program</b>	<b>Charity</b>	<b>Environmental protection</b>
<ul style="list-style-type: none"> <li>– 39 thous. employees in 2019;</li> <li>– average salary of AIH «Miratorg» employee in 2019 – 34 thous. rub.;</li> <li>– comfortable and safe working conditions;</li> <li>– tax payments – 12 billion rub.</li> </ul>	<ul style="list-style-type: none"> <li>– The "Miratorg Generation" program is aimed at attracting young specialists, their training and professional development;</li> <li>– over 500 students from various universities and colleges participated in the program in 2019;</li> <li>– cooperation with educational institutions of agricultural and technical specializations of Belgorod, Voronezh, Kursk, Rostov, Moscow, Bryansk, Kaliningrad and Saint Petersburg;</li> <li>– corporate mentoring system.</li> </ul>	<ul style="list-style-type: none"> <li>– young talent support;</li> <li>– support of children in difficult life situations and children's educational and social institutions;</li> <li>– Support of rural schools and kindergartens, district medical institutions, organizations for people with special needs and veterans;</li> <li>– support and initiation of social and charitable activities.</li> </ul>	<ul style="list-style-type: none"> <li>– cooperation with related government services and non-governmental organizations to spread and implement best practices in ensuring biological and environmental safety;</li> <li>– bio-safety standards compliance;</li> <li>– team of highly qualified veterinarians, over 400 people in total;</li> <li>– mass medical check-ups;</li> <li>– unified electronic database;</li> <li>– compliance with international quality and safety standards.</li> </ul>

GOC Rusagro is the largest vertical agricultural holding company in Russia. It currently holds leading positions in sugar production, pig breeding, crop production and fat and oil business. Regional business diversity is ensured by presence in the Belgorod, Tambov, Sverdlovsk, Voronezh, Samara, Kursk and Oryol regions, as well as in the Primorsky Krai. Rusagro Group of Companies actively implements modern world technologies both in terms of equipment and management practices in all business areas [5].

In its activities, the company is focused on socially responsible conduct towards society as a whole and its related parties. Corporate social responsibility is manifested in the improvement of the regions where it operates, creation of new jobs, employee health care, occupational and environmental safety, implementation of charitable programs, etc. (Table 3).

**Table 3.** Spheres of socially accountable activities of GOC «Rusagro».

<b>HR management</b>	<b>Social investments</b>	<b>Ecological safety</b>	<b>Lean manufacturing</b>
<ul style="list-style-type: none"> <li>– 19.7 thous. employees in 2019;</li> <li>– The average salary in operating and production enterprises in 2019 was 46 thous. rub.;</li> <li>– 61% share of Rusagro's internal employees in 2019;</li> <li>– Internship programmes. dual-training programmes. as well as career days for students from the Belgorod, Tambov and Oryol Regions (16 educational institutions and 400 people participated);</li> <li>– development of internal mentoring and coaching;</li> <li>– providing comfortable and safe working conditions;</li> <li>– unified corporate portal;</li> <li>– unified corporate culture;</li> <li>– implementation of the program into personnel management — SAP Success Factors (SF).</li> </ul>	<ul style="list-style-type: none"> <li>– in 2019. the amount of funding for the Charity program reached 34.1 million rubles;</li> <li>– in 2019. the number of educational institutions participating in the Charity Program increased (87 schools and kindergartens);</li> <li>– The educational initiative "Future Growths" is aimed at equalizing the competitive opportunities of children living in different social conditions. supporting their personal development and universal hard and soft skills.</li> </ul>	<ul style="list-style-type: none"> <li>– compliance with the requirements of current legislation in the field of nature protection and human health;</li> <li>– best available technology implementation;</li> <li>– environmental footprint reduction;</li> <li>– most wastes are classified as low-hazard or almost environmentally non-hazardous;</li> <li>– installation of energy-saving equipment.</li> <li>– implementation of automatic and remote lighting control system;</li> <li>– compound fertilizer management;</li> <li>– compliance of the modern standards in the field of high quality animal breeding and disease risk reduction.</li> </ul>	<ul style="list-style-type: none"> <li>– in the sugar business segment is successfully implemented “the Everest” - a world-class production program.;</li> <li>– a system of continuous improvement "5C" ("Kaizen") is being introduced in agricultural business;</li> <li>– the meat business is implementing the "Lean Production" project;</li> <li>– the oil and fat segment uses its own production system by methodology of WCM (World Class Manufacturing)</li> </ul>
<b>Quality</b>	<b>Standards of</b>	<b>Countering corruption</b>	<b>Purchasing</b>

<b>Management</b>	<b>external corporate conduct and ethics</b>		<b>Function</b>
<ul style="list-style-type: none"> <li>- certification in accordance with Russian and international regulations and regulatory requirements. production and sales principles for safe products;</li> <li>- quality management system by government standards ISO 9001-2011 and food safety management system implemented - ISO 22000:2005</li> </ul>	<ul style="list-style-type: none"> <li>- code enforcement;</li> <li>- fair dealing;</li> <li>- regulatory compliance;</li> <li>- antitrust compliance.</li> </ul>	<ul style="list-style-type: none"> <li>- cooperation only with reliable. non-corrupted business partners;</li> <li>- bribery prevention by developing and implementing a system of adequate procedures;</li> <li>- cooperation with authorized bodies. partners and clients in the fight against corruption.</li> </ul>	<ul style="list-style-type: none"> <li>- selection of suppliers. contractors. executors who have offered optimal in quality. price. time and regime conditions of fulfillment of supply. subcontractor and service contracts;</li> <li>- creating equal competitive opportunities for all participants;</li> <li>- risk mitigation for deals with untrustworthy partners.</li> </ul>

JSC "Agrocomplex named after Tkachev N.I." is one of the largest holdings in the Southern Federal District, working in such spheres as rice growing, meat and dairy cattle breeding, plant growing, pig and poultry farming, processing industry and trade [6]. The social activities of "Agrocomplex" are aimed at improving the living conditions of the company's employees, keeping them healthy, as well as at increasing the efficiency of work; charity assistance is also provided (Table 4).

**Table 4.** Spheres of socially accountable activities of agroholding «Agrocomplex».

<b>Social Projects</b>	<b>Environmental Accountability</b>
<ul style="list-style-type: none"> <li>- 37 thous. employees;</li> <li>- parental benefits and payouts for the employees' weddings;</li> <li>- support for talented and promising children;</li> <li>- retiree and WOW veterans support;</li> <li>- practical training opportunities;</li> <li>- sport propaganda;</li> <li>- charity work</li> </ul>	<ul style="list-style-type: none"> <li>- striving to minimize negative impact on the environment, improving eco-indicators of all business processes;</li> <li>- natural food production.</li> </ul>

The aspiration of agricultural organizations to produce organic products can be considered as evidence of social responsibility. One of the activities of "EkoNiva-APK" agroholding is ecological production [7]. Unfortunately, domestic producers mainly grow organic crops for export, and in the domestic market there are almost no organic products of domestic production. To form demand for organic products, it is necessary to raise public awareness about the usefulness and safety of organic products. Promote a healthy lifestyle and involve government agencies, as well as environmental associations and consumer organizations in the process of organic market formation in the country [8].

The examined practices of corporate social responsibility undoubtedly reveal a positive trend in the development and spreading of social accountability of agribusiness in Russia. However, they are more of an exception, we can state a rather low level of social responsibility of agricultural structures, and there is no information about the financial support of social programs. Given the increasing concentration and specialization of

agricultural production, strengthening the position of agricultural holdings, there is a need to reinforce the social orientation of their functioning.

## 4 Conclusions

The current level of social responsibility of agribusiness, due to the low efficiency of agricultural organizations, the lack of a government reward system and the imperfect legal framework for the social activities of agribusiness, require the creation of an appropriate motivational mechanism. The following activities will contribute to spreading the practice of social responsibility of agribusiness and encouraging agricultural organizations to solve social problems:

- creation of favorable institutional and legal conditions for agribusiness entities taking part in solving social problems;
- preferential taxation, reduction of rent and other payments to organizations engaged in sponsorship and charity activities;
- government support for socially responsible agribusiness;
- applying economic and other sanctions against organizations that ignore the social interests of rural areas;
- advisory work;
- accumulation of information on best practices of social responsibility in agribusiness, replication of successful experience.

Organizations that implement corporate social responsibility programs have greater opportunities to attract investment capital, more successfully sell agricultural products and food, and the market value of the organization is growing. Investors and other stakeholders are beginning to consider such organizations as a serious and reliable partners [9].

Organizations may be encouraged to increase their social responsibility by respecting established by law rights and legitimate interests of workers, and by creating guarantees of social justice that ensure an equal quality of life for the rural and urban population. Socially responsible agribusiness is a reliable partner of the state in implementing its social programs.

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