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Strategic role of corporate transparency: the case of Ukrainian agroholdings

Special issue: Agroholdings and mega-farms in a global context

REVIEW ARTICLE

Taras Gagalyuk

Senior Researcher, Department of Structural Development of Farms and Rural Areas, Leibniz Institute of Agricultural Development in Transition Economies (IAMO), Theodor-Lieser-Str. 2, 06120 Halle (Saale), Germany

Abstract

The paper argues that transparency of large corporate farms operating in transition economies is the factor that affects their competitive position as it helps to preserve access to international equity markets and to reduce uncertainty that arises from imperfect local input markets. We demonstrate that the corporate transparency of large farms is an issue of both public interest and private investor interest and decompose the construct of transparency respectively. Because firms tend to exhibit heterogeneous transparency strategies when facing common sets of pressures, we draw upon four case studies of different Ukrainian agroholdings using the suggested decomposition of the transparency construct. We find that large farms may benefit substantially in the long run if they establish effective corporate governance mechanisms and provide more evidence that they contribute positively to corporate social responsibility and rural development.

Keywords: corporate transparency, agroholdings, ownership structure, corporate governance, corporate social responsibility

JEL code: Q14, Q15, O16, O43, G24, G34

Corresponding author: gagalyuk@iamo.de

1. Introduction

The emergence and persistence of large farming companies in the agricultural sector of transition countries and emerging market economies is increasingly recognized (Deininger and Byerlee, 2012; Wandel, 2011). Apart from imperfect competition and market failure that follow the transformation process (Koester, 2005), political support is a considerable factor that facilitates the development of this type of companies (Wegren, 2005) which is often referred to as agroholdings (Balman *et al.*, 2013; Hockmann *et al.*, 2009; Kataria *et al.*, 2013).

Particularly, in countries such as Kazakhstan, Russia and Ukraine, the emergence of capitalism was characterized by unequal access to the privatization process and rapid development of large controlling shareholders in firms (Dallago and Rosefielde, 2016; Sutela, 2012). At the same time, transition to the market economy required the adoption of large numbers of laws and regulations over a short period of time (Berglöf and Pajuste, 2005). Given limited backing from the post-communist political process, the narrow base of the shareholder constituency of emerging enterprises became entwined with policymakers, causing concerns about the extent of implementation and sustained enforcement of key provisions (Visser *et al.*, 2012). In this context, political protection by the rulers, tax reductions or waivers, subsidies and better access to financial services were and are among the major incentives of large-scale agricultural production (Matyukha *et al.*, 2015). This entwinement of business and policy created a non-transparent economic environment with a high level of social unacceptance and mistrust of a free market economy (Epshtein *et al.*, 2013; Oleinik, 2005). Land grabbing, tax evasion, rural unemployment and outmigration are not nearly enough to show the entire spectrum of problems agroholdings are publicly criticized for (Borras Jr. *et al.*, 2011; Deininger and Byerlee, 2012; Iwański, 2015; Visser and Spoor, 2011).

Another factor that facilitates agroholdings' growth is their ability to minimize costs of hired labor monitoring and maintain increasing returns to scale by means of modern technologies (Valentinov, 2007). However, growth based on technological progress requires access to capital whereas capital markets are often imperfect in transition and emerging market economies. The adoption of international reporting and accounting standards is substantially postponed (Kuzina, 2014; Zeghal and Mhedhbi, 2006) while insufficient disclosure of even mandatory information on companies makes it impossible for investors and commercial banks to make proper investment decisions (Il'chenko-Syuyva and Radzimovska, 2008). To this end, the existing empirical studies demonstrate that the large farm investment behavior is strongly affected by credit constraints (Swinen and Gow, 1999; Zynych and Odening, 2009). Therefore, a number of agroholdings express a high demand for private and public equity in financing growth (Petrick *et al.*, 2013) and increasingly attract outside capital through listing on international stock markets (Chaddad, 2014).

If a company that emerged and operates under such conditions intends to be listed on international financial markets, it may face some particular challenges. An international listing requires transparency as an effective mechanism to mitigate specific consequences of discretionary policies and managerial opportunism. The main concern is that such companies may not be sufficiently disciplined and regulated for developed capital markets outside the home jurisdiction (Barth *et al.*, 2008; Sun and Tobin, 2005). Therefore, they may benefit from improvements in corporate transparency through greater liquidity, lower investor uncertainty and transaction costs (Lang *et al.*, 2012).

However, the magnitude of the benefits that accrue from higher corporate transparency depends on the companies' ability to appropriately address the institutional framework in a given economy. In this context, not only adherence to legal requirements and practice of information disclosure (Berglöf and Pajuste, 2005) but also response to ideological, mythological and moral societal discourses (Balman *et al.*, 2016; Hermans *et al.*, 2009) may strengthen access to capital. Public concerns on the issues like land grabbing, tax evasion, layoffs, industrial farming practices, etc. that are publicly discussed in relation to agroholdings may cause social unacceptance of agriculture as well as biased public perceptions and policies. This is even

more important given the initially focal role of agriculture in the society and its eventual 'alienation' from the society driven by agricultural technological progress¹ (Thompson, 2010).

We therefore argue that corporate transparency of agroholdings is in the focus of both the private investor and general public interest while survival and growth of agroholdings hinge on their ability to address transparently the problems of both the investors and general public. Corporate governance, independent audits, financial disclosure regimes, securities laws and regulators are among the most discussed institutions that promote corporate transparency (Bushman and Smith, 2003; Bushman *et al.*, 2004). However, such institutions do not entirely address the issue of corporate transparency as they often overlook public interests, especially against the backdrop of weak institutional environments and imperfect factor markets. This incomplete perspective prevails also in the corporate transparency literature that captures specific aspects of transparency rather than holistic views on the construct.

The general aim of this paper is thus to demonstrate how agroholdings manage their corporate transparency in order not only to secure access to capital markets through financial information disclosure but also to address the challenges of the institutional environment by means of transparent corporate social responsibility (CSR) activities and best communication practices. Because firms generally tend to exhibit heterogeneous strategies when facing common sets of pressures (Lewis *et al.*, 2014), we draw upon case studies of four different Ukrainian agroholdings characterized by distinct founder ownership, financial results and extent of corporate transparency.

The paper is structured as follows. First, we elaborate on the theoretical background of the transparency construct in management and economic research. Second, we introduce the context of agroholdings in transition and emerging market economies followed by the results of the case studies. Finally, we develop managerial implications and conclusions.

2. The concept of corporate transparency

The view that transparency deserves more attention in firm management is widely shared (Deimel *et al.*, 2008; Fritz and Fischer, 2007; Hanf and Hanf, 2007). In this paper, we focus on the concept of corporate transparency and use the following research-oriented definition of it: 'Transparency is the availability of firm specific information to those outside publicly traded firms' (cf. Bushman *et al.*, 2004: 207).

Corporate transparency has long been under scrutiny of the financial disclosure literature that followed the shareholder perspective on firm performance (Friedman, 1970). In this vein, finance and accounting scholars recognize higher firm transparency with respect to financial statements and the firm's economic results as one of the important drivers of shareholder value (Bushman *et al.*, 2004). Apart from timely delivery and comprehensiveness of financial reports, the financial disclosure research also focuses on complex systems of supporting institutions that promote the governance of publicly traded companies. Particular attention is paid to corporate governance structures as they serve to: (1) ensure that minority shareholders receive reliable information about the value of firms and that a company's managers and large shareholders do not cheat them out of the value of their investments; and (2) motivate managers to maximize firm value instead of pursuing personal objectives. Institutions promoting the governance of firms include reputational intermediaries such as diverse boards, investment banks and audit firms, securities laws and regulators, and disclosure regimes that produce credible firm-specific information about publicly traded firms (cf. Bushman and Smith, 2003).

The information that is used for the assessments of the transparency-enabling environment includes annual reports, articles of association, memorandums of association, annual general meeting minutes, analyst reports,

¹ There is an ongoing discussion among agricultural economists representing two different streams of thought on the societal role of agriculture, i.e. the agrarian vision and the agro-industrial vision of agriculture. Whereas the agro-industrial vision emphasizes the economic benefits of agriculture for the society (e.g. Boehlje, 1999), the agrarian vision underscores the exceptional moral role of agriculture calling for more agro-political privileges (Thompson, 2010).

and other publicly available sources (Cheung *et al.*, 2010). Accounting standards, auditor choice, earnings management and analysts following are named among the factors that influence corporate transparency (Lang and Maffett, 2011). Furthermore, there is evidence that more firm shares being publicly traded motivate firms to be more transparent, i.e. the firm's ownership structure is another factor that affects corporate transparency (Chau and Gray, 2002; Patel *et al.*, 2002). The financial disclosure literature also postulates that corporate transparency is positively related to a firm's reputation that motivates firms to disclose information more intensively (Roberts and Dowling, 2002). However, this single effect on accounting performance might not reflect many of the benefits of good reputations, which usually materialize in the long run and involve various value drivers.

In this context, the shift from the shareholder focus to the stakeholder perspective in business and management research (e.g. Frooman, 1999) offers a new terrain for interpretations of the corporate transparency concept. As a result, corporate transparency is not viewed solely from the agency cost perspective but also as a source of competitive advantage (Ioannou and Serafeim, 2015). Recent evaluations demonstrate that the perceptions of the general public also have important implications for future shareholder value (Raithel and Schwaiger, 2015; Rindova *et al.*, 2010). The general public's perceptions of the firm gain in importance as the demand for the firm's ability to address the interests of many stakeholder groups with regard to environmental protection, social security, product and service quality poses new requirements toward corporate communications. Importantly, the ability to fulfil these requirements may turn on a number of important drivers of shareholder value such as improved access to bank loans, sales growth and higher operating margins and thereby sustain the firm's competitive advantage (Raithel and Schwaiger, 2015). Furthermore, along with the studies that argue that higher transparency leads to higher performance (Stiglbauer, 2010), there exists a body of literature that assumes reverse causality and emphasizes that companies which have already solved their agency conflicts and perform better may also be more transparent (Eng and Mak, 2003; Li and Qi, 2008). Moreover, institutional settings that are often unable to preclude the incurring social costs of corporatization may be a driver of a more ethical behavior of firms (Balmann *et al.*, 2016).

The firm's CSR activities play an important role in this respect. Ioannou and Serafeim (2015) demonstrate that the investments analysts' assessments of the listed companies improve with the firms' involvement in CSR. Particularly with regard to the analysts' forecasts, the expected improvements can be achieved only if internal and external CSR activities are addressed (Hawn and Ioannou, 2015). Apart from disclosure on employee security issues, organizational and technological innovations, firms have to demonstrate their awareness of environmental pressure (Hellberg-Bahr and Spiller, 2012; Hooghiemstra, 2000) and be active in improvement of social and physical infrastructure, implementation of diversity, community and environment protection projects. Accordingly, a number of public and private initiatives on CSR disclosure have been recently developed. The most known of them include the United Nations Global Compact index, the Global Reporting Initiative (Gamerschlag *et al.*, 2011), Kinder Lydenberg Domini social ratings data (Bear *et al.*, 2010) and others.

Importantly, the ability of firms to comprehensively inform about their social, environmental and economic activities increases with the development of modern communication technologies. These technologies enable firms to bring together all communications that involve a firm as a corporate entity and, thus, the corporate communication's *raison d'être* becomes to organize a firm's communication activities as a coherent totality (cf. Christensen, 2002). In order to address all potential stakeholders, compliance with best communication practices and the ability to use effectively the communication tools is relevant (e.g. Van den Bosch *et al.*, 2005). The information that is used for the assessments of best communication practices includes company website, readability and downloadability of documents, conference calls, etc. (Cheung *et al.*, 2010; Investor Relations Agency, 2014).

The above presented overview of the literature on corporate transparency as well as some earlier, more extensive reviews on this issue (e.g. Beyer *et al.*, 2010; Gray *et al.*, 1995; Healy and Palepu, 2001) inductively deliver a set of criteria that enable comprehensive empirical inquiry into the concept of corporate transparency.

These criteria principally compose the following transparency constructs: (1) Information about the firm's corporate governance structure; (2) information about owners, shareholders, shares and financial results; (3) information about the firm's CSR activities; and (4) compliance with best communication practices (Table 1). To the best of the authors' knowledge, the concept of corporate transparency has not yet been analyzed in its entirety as proposed by this holistic view, particularly from the perspective of corporate enterprises engaged in primary agricultural production in transition and emerging market economies. We therefore introduce the context of Ukrainian agroholdings in the subsequent section and then scrutinize the role of transparency in the agroholdings through the lens of the proposed transparency constructs.

Table 1. Investor and general public orientated criteria for corporate transparency inquiry.

Transparency construct	Transparency criteria (disclosure/availability of information on:)
Corporate governance information (Bushman <i>et al.</i> , 2004; Bushman and Smith, 2003)	<ul style="list-style-type: none"> • Independent directors • Board of directors • Corporate governance rules • Statute/articles of association
Ownership, share and financial information (Chau and Gray, 2002; Cheung <i>et al.</i> , 2010; Lang and Maffett, 2011; Patel <i>et al.</i> , 2002)	<ul style="list-style-type: none"> • Corporate report • Press release on company events • Presentations for investors • Shareholder meetings • Prospectus • Shareholder structure • Share price • Offering structure • Independent auditor • Analyst coverage • Personal contact of investment relations officer
Corporate social responsibility (CSR) information (Bear <i>et al.</i> , 2010; Gamerschlag, 2011; Ioannou and Serafeim, 2015)	<ul style="list-style-type: none"> • CSR reports • CSR events calendar • Commitment to CSR areas: <ul style="list-style-type: none"> – community development – diversity and equal opportunities – employee relations – product quality – environment protection – human rights
Best communication practices (Cheung <i>et al.</i> , 2010; Christensen, 2002; Investor Relations Agency, 2014)	<ul style="list-style-type: none"> • Possibility of conference calls • Multiple languages • Feedback form • General contacts • Website search • Site map • Usability ('three clicks to the goal') • Regular update • Document readability • Document downloadability

3. The context: large corporate farms in Ukraine

Our focus on Ukraine is determined not only by the fact that its agricultural sector is increasingly dominated by operations of large-scale farms but also by the evidence that this transition country accommodates a number of institutional bottlenecks, driving non-transparent business practices. Entwinement of businessmen and policymakers, biased public policies, mistrust of a free market economy, insufficient social security systems and imperfect markets affect the country's economy today (e.g. Sutela, 2012).

Furthermore, Ukrainian agriculture is subject to a broader controversy that originates from the so-called alienation of agriculture from the society since agriculture is becoming globally less capable of dealing with the new societal pressures such as animal welfare and environment protection (Thompson, 2010). Noteworthy, the related disputes are often less determined by an endeavor to find respective solutions whereas they are to a large extent characterized by ideological buzzwords such as 'factory farming', 'death of peasant farms', etc. There are also other, deeper problems associated with the special role of agriculture in the economic system. Agriculture enjoys countless privileges not only in the context of agricultural policies but also in the tax, social security and other areas of public policy. Sometimes even special legal provisions apply within the agricultural sector, such as the demarcation for commercial livestock or the distinction between legal forms of farming (Balman *et al.*, 2016).

The debate on reasonability of the privileges is particularly intensive in transition economies where agricultural policies and the associated path dependencies lead to the development of dualistic structures of agricultural production. For instance, in Ukraine, the Land Code of 2001 recognized private land ownership, allowed for certain land transactions and eliminated size restrictions for rural household plots and family farms. Nevertheless, it included a moratorium on buying and selling of land by households and family farms that has been retained until January 2008 and then prolonged each year until present times. The Land Code also bans the investment of agricultural land in the equity capital of newly created businesses, a precautionary measure to counter pressure from farm managers on landowners to transfer their land to the corporate farm, thereby losing legal rights to it. However, the Land Code does not limit the lease term and very long-term leases lead to a *de facto* absorption of land in the corporate equity (OECD, 2003). As a result, huge agroholdings emerged as an important player of the Ukrainian agricultural and land markets while small-scale subsistence farming is also persistent and dominates several production sectors (Kataria *et al.*, 2013; Lapa *et al.*, 2015).

Moreover, agricultural policies that aim to facilitate farm incomes were often conducive to the development of agroholdings. In Ukraine, debt restructuring programs, simplified and lowered taxes on agriculture and subsidized loans for capital investment were among the main drivers of land consolidation by outside investors (Lapa *et al.*, 2015). Even today some of the agroholdings are among the main recipients of state support in the form of tax exemptions².

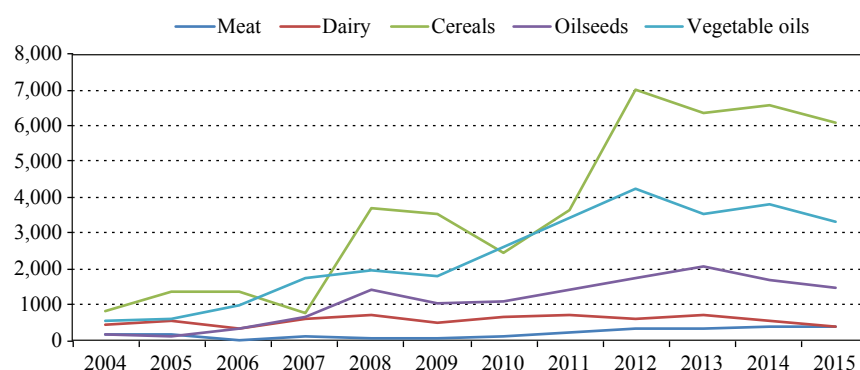
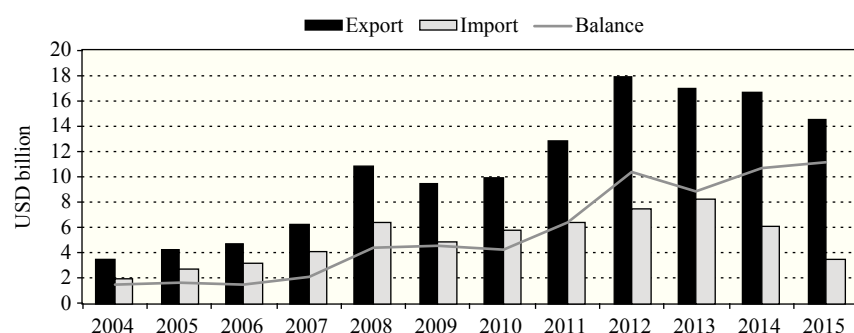
Another factor of the development of agroholdings is the growing global demand for food and integration into the world markets that made agriculture a profitable business in Ukraine. In particular, this holds for crop production (Table 2) as crop commodities exports prevail in the structure of exports and contribute to the country's positive agricultural trade balance (Figures 1 and 2). Large-scale private investments in crop production thus became one of the major internal drivers of growth in Ukraine's agriculture (Nivjevskyi *et al.* 2015).

As a result of land consolidation, the number of corporate farms shrank from roughly 17,700 in 2004 to 12,887 in 2014 (State Statistics Committee of Ukraine, 2015). An increasing number of these farms are coming under the control of agroholdings. The agroholdings' mother companies typically have a controlling interest in 5 to 50 individual corporate farms of about 2,000-15,000 hectares each with the total size of an

² <http://tinyurl.com/jgccb2v>. It is stated that six publicly listed Ukrainian agroholdings enjoyed a \$295 million tax exemption in 2014. Based on the authors' expert interview with the representative of Ukrainian Agribusiness Club, this made about 15% of total tax exemptions in Ukrainian agriculture in 2014.

Table 2. Profitability of production in agricultural enterprises in Ukraine (%) (adapted from State Statistics Service of Ukraine, 2015).

	2010	2011	2012	2013	2014
Profitability – total	24.5	24.7	22.8	11.7	21.4
Grains	13.9	26.1	15.8	2.4	25.7
Sunflower seeds	64.7	57.0	44.9	28.2	36.7
Sugar beet	16.7	36.5	15.9	3.1	17.8
Vegetables	23.5	9.9	-0.6	7.5	15.5
Potatoes	62.1	17.7	-17.4	22.4	9.9
Fruit and berries	14.9	17.9	9.6	127.5	65.8
Grapes	91.6	57.1	71.5	99.0	57.5
Milk	17.9	18.5	1.8	13.1	11.1
Cattle	-35.9	-24.8	-28.3	-41.3	-34.5
Pigs	-7.8	-3.7	1.8	0.2	5.6
Sheep and goats for meat	-29.5	-39.6	-32.8	-36.2	-43.0
Poultry	-4.4	-16.8	-5.9	-12.6	-5.4
Eggs	18.6	38.8	47.6	58.8	60.9

**Figure 1.** Development of main Ukrainian agri-food exports in 2004-2015 in million USD (adapted from United Nations Comtrade Database, 2016).**Figure 2.** Agricultural trade in Ukraine in 2004-2015 in billion USD (adapted from United Nations Comtrade Database, 2016).

agroholding varying from 8,000 hectares to 640,000 hectares. Today 79 agroholdings farm about 6.2 million hectares or 17% of total arable land; the largest of them, UkrLandFarming, operates about 640,000 hectares. In 2014, agroholdings produced about 22.5% of the gross agricultural output, including 19.6% of the total crop output and 28.1% of the total livestock output (UCAB, 2015).

Because agroholdings benefit from economies of size, they often have better access to production inputs and external capital sources. Along with improved access to capital, listings on international stock markets often entail revision of the existing business models by agroholdings as they have to disclose information on governance structure, financials and organization (Chaddad, 2014; UCAB, 2012). However, the social benefit of large-scale agricultural investments is also highly dependent on the institutional frameworks for land use, human capital development, and implementation of production and management technologies (Petrick *et al.*, 2013). Particularly in transition and emerging market economies which lack reliable social security systems and where the institutional environment is weak, the processes of corporatization and consolidation are able to induce high social costs such as, for example, replacement of labor through mechanization. Scarce evidence suggests that some agroholdings respond to the arising social challenges through the development of physical and social infrastructure in rural areas (Hanf and Gagalyuk, 2009) but, generally, little empirical research exists on these issues.

Hence, the current paper keeps its momentum, elaborating empirically on the role of corporate transparency in the context of large publicly listed agricultural companies with operations in Ukraine. Since the first initial public offering (IPO) that was conducted in 2005, the subsequent listings of Ukrainian agroholdings on international equity markets were able to raise more than \$6 billion of additional investments (UCAB, 2012). In 2005-2014, 21 agroholdings with operations in Ukraine were listed on international stock exchanges. Within this period, some of them merged while some were delisted due to poor performance. Thus, today only 12 companies from primary agriculture of Ukraine are publicly listed (Supplementary Table S1.).

Noteworthy, no Ukrainian companies that are involved in primary agricultural production made an IPO after 2012. Since late 2013, the country risk of Ukraine was high due to a political turmoil and an ongoing military conflict in the eastern part of the country. Accordingly, the expected pricing conditions on international equity markets as well as the economic results of agroholdings got substantially worse. Inadequate macroeconomic and monetary policies led to triple devaluation of the Ukrainian hryvnia against the US dollar. As a result, the total net profit of \$406.5 million that publicly listed agroholdings made in 2013 turned into the total net loss of \$767.8 in 2014 (UCAB, 2016). Total capitalization declined twofold in the same period (Figure 3). This *force majeure* development renders comparability of some of the current performance figures of the listed agroholdings difficult. Therefore, further elaborations of this paper that consider capitalization, ownership and share value of the agroholdings are based on the figures that precede the 2014 events, i.e. lastly dated October 2013.

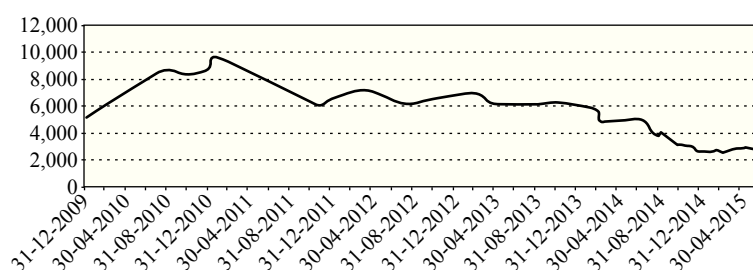


Figure 3. Total stock market capitalization of Ukrainian publicly listed agroholdings in million USD (adapted from UCAB, 2015).

4. Case studies of Ukrainian publicly listed agroholdings

Given the limited empirical evidence about the process and outcomes of transparency management by large agricultural enterprises in transition and emerging market economies, we use a case study approach to develop inductively a number of implications. Where possible, we verify our case study results with the data from agroholdings' corporate reports, financial statements and official websites.

We draw upon case studies of the following publicly listed Ukrainian agroholdings: MHP, Agroton, IMC, and Mriya. We select these four companies out of twelve publicly listed Ukrainian agroholdings because they are characterized by different founder ownership structures and dynamics as well as by different performance results (Table 3). These aspects may provide additional insights into the interrelationships between transparency, ownership structure and performance.

Table 3. Characteristics of studied agroholdings (adapted from data of stock exchanges, corporate reports and websites, and Ukrainian Agribusiness Club, 2016).¹

	MHP S.A.	Agroton Public Limited	IMC S.A.	Mriya Agro Holding Public Limited
Date of IPO	May 2008	November 2010	May 2011	July 2008
Corporate governance				
Registered office	Luxembourg City, Luxembourg	Nicosia, Cyprus	Luxembourg City, Luxembourg	Nicosia, Cyprus
Stock market	London Stock Exchange	Warsaw Stock Exchange	Warsaw Stock Exchange	Frankfurt Stock Exchange (delisted in 2014)
Total number of board members	6	5	5	8
Total number of independent directors	3	2	2	2
Number of foreign independent directors	3	0	2	2
Investor relations and ownership				
Financial statements reporting	Quarterly	Semi-annual	Quarterly	Semi-annual
Independent auditor	Deloitte	KPMG (replaced Baker Tilly in 2012)	Baker Tilly	KPMG (replaced E&Y in 2015)
Number of investment analysts	14	4	6	n.a.
Free float as of IPO date (%)	22.3	42.4	24.0	20.0
Free float as of October 2013 (%)	52.0	44.6	26.3	20.0
Performance				
Capital raised through IPO (\$ million)	161.3	54.4	24.4	90.0
Capitalization three months after IPO (\$ million)	1,745.7	312.8	101.0	388.4
Capitalization as of October 2013 (\$ million)	2,496.2	16.9	147.4	667.6
Share price three months after IPO (\$)	15.8	41.0	9.2	3.7
Share price as of October 2013 (\$)	15.7	0.8	4.7	6.3
Net profit three months after IPO (\$ million)	14.9	-18.9	14.8	75.0
Net profit as of October 2013 (\$ million)	162.0	-5.7	25.8	88.5
Operations				
Land use as of IPO (thousand ha)	200	151	39	150
Land use as of October 2013 (thousand ha)	360	151	137	295
>>>>				

Table 3. Continued.

	MHP S.A.	Agroton Public Limited	IMC S.A.	Mriya Agro Holding Public Limited
Specialization	Poultry meat; poultry meat and beef products and semi-products	Oilseed and grain production and storage	Oilseed and grain production and storage	Grain and oilseed production and storage; sugar beet production
Vertical integration and other production	Oilseed and grain production and storage; milk production; fruit production; biogas production	Milk production; bakery products	Milk production; potato production	Sugar production; seed production; potato production
CSR				
Main CSR areas	Community development, animal welfare, employees, environment	n.a.	Community development, employees	Community development, employees

¹ IPO = initial public offering; CSR = corporate social responsibility; n.a. = not available.

MHP S.A.

The public joint stock company MHP (stands for ‘Myronivskyi Khliboprodukt’ which means ‘Bakery products from Myronivka’ in Ukrainian) was founded in 1998 by Mr. Yuriy Kosyuk who is also the Chief Executive Officer (CEO) and the major shareholder of MHP. The company is a strictly vertically integrated agroholding with main facilities located in Central Ukraine. The total farmland in use is about 360,000 ha although MHP is primarily specialized in chicken production. Its share in total chicken meat production in Ukraine accounts for about 55%. MHP has developed and owns a range of branded semi-processed and processed poultry products. Other operations involve grain and oilseed production, storage and trade, cattle breeding, meat processing, fodder production, and fruit production.

In 2008, MHP was listed on London Stock Exchange through an IPO in Global Depositary Receipts (GDRs) and attracted \$161.25 million of outside capital. Free float amounted to 9.70% of the company's issued ordinary share capital. Since then, the company has increased free float up to 51.95% through additional allotments. The attracted funds were mainly used for expansion of the poultry business segment. MHP invested in the construction of a large poultry complex with the total annual capacity of 566.6 thousand tons of chicken meat in Vinnytsya region of Ukraine.

■ *Corporate governance transparency*

Given MHP's involvement in international equity markets and a high degree of dependence on foreign investors, the company's corporate governance is designed in the way to address the expected agency costs between shareholders and corporate managers. The board of directors is rather diverse. Along with the company's three top managers who are also shareholders of MHP, the board additionally consists of three non-executive directors who participate in the company's audit and remuneration committees. All three non-executive directors are foreign citizens and represent the agribusiness, commercial banking and investment sectors. MHP formally complies with Ten Principles of Corporate Governance approved by the Luxembourg Stock Exchange and voluntary corporate governance regime stated in the UK Corporate Governance Code. The company holds annual general meetings every year in April and publishes articles of association on its

website. The main aspects of the company's corporate governance policy are described in the Corporate Governance Charter approved by the board of directors.

■ *Ownership, share and financial transparency*

The IPO prospectus of MHP is publicly available on the company's website whereas the results and structure of the offering are described both in the 2008 financial report and on the history page of the company's website. MHP also publishes interim (quarterly) and annual corporate reports on its website. The reports contain information about the board of directors, audit and remuneration committees, top management compensation, ownership structure, share value, holding structure, financial results of the holding in general and each particular business segment in particular. Each of the reports is announced in a respective press release. The MHP website also provides a daily update of the company's share and bond information. Along with presentations for investors, MHP informs its shareholders about annual meetings and other corporate events through its financial calendar which is also available on the company's website. 14 investment analysts from both international and Ukrainian investment banks cover the company's operations.

■ *Corporate social responsibility transparency*

MHP discloses its CSR policy on the corporate webpage. This policy captures a number of activities in the areas of human capital development, animal welfare, environmental protection, sustainable development, and biosecurity. Although all of these areas are considered important, the company's managers emphasize that the main driver of CSR is the necessity to maintain the commitment of landowners. Given that farmland sales are prohibited in Ukraine, land lease is the only way to access land. Long-term investments of businesses in the leased-in farmland are thus insecure due to a threat that a significant number of lessors/landowners may get better lease price offers for their land plots from competing agroholdings. Therefore, the development of the landowners' communities and binding the landowners is supporting the long-term interests of the company. For this matter, MHP has established a specific management position on landowner relations and founded a special social center designed as a separate NGO that addresses the needs of the communities in MHP's business locations. The social center provides new equipment to schools and hospitals, makes donations to churches, invests in reconstruction of rural roads and realizes a number of other social projects.

■ *Best communication practices*

Communication practices of MHP are designed in the way to maintain interactions with a broad range of stakeholders. MHP publishes annually its stakeholder engagement plan for an upcoming year. The company has established a unified department of public relations and social responsibility which signifies the importance of external communication of CSR. MHP is also involved in government relations through membership to several business associations in Ukraine. In order to interact with its customers, MHP maintains special websites for each of its branded products. The company's suppliers are also informed about fodder quality and purchase requirements on a separate webpage. Communication with investors is supported through the investor relations webpage that offers the possibility of conference calls. This webpage also provides personal contact details of the investment relations officer as well as a feedback form, website search and site map. Information on the webpage is presented in three languages while all corporate documents are downloadable in PDF format.

■ *Summary on MHP S.A.*

MHP is one of the most successful agroholdings in Ukraine. Executing a vertically integrated business model in the region with fertile black soils, it demonstrates high performance on international equity markets and is effective in diverting outside capital into expansion of its businesses. The company's corporate governance and broad analyst coverage effectively preclude agency problems although its founder acts as a CEO and chairman of the board at the same time. MHP's corporate communications address its stakeholders comprehensively.

Information for investors is regularly updated whereas CSR programs are locally implemented in rural communities and communicated to a broader audience.

Agroton Public Limited

Agroton is a diversified vertically integrated agricultural producer in Eastern Ukraine. The company's core business is production, storage and processing of sunflower seeds and wheat. In addition, the company is engaged in livestock production. In 2001-2009, Agroton tripled its harvested area from initial 41,000 hectares to almost 140,000 hectares. Today Agroton harvests about 151,000 hectares of 'black soil' arable land, operates storage facilities with a throughput capacity of 285,000 tons per year, and produces and sells high quality cattle.

The company was founded by Mr. Iurii Zhuravlov who is also the CEO of Agroton. In 2009, Agroton was listed in GDRs on the Open Market of the Frankfurt Stock Exchange (representing almost 25% of Agroton's share capital) to finance further business growth. The company conducted IPO and has been listed on Warsaw Stock exchange since late 2010. However, in 2013, Agroton announced technical default on its bond obligations due to the crisis in the Bank of Cyprus where the company decided to keep the most part of its operating capital. This immediately led to a considerable drop of the company's share price and ratings.

■ *Corporate governance transparency*

Since Agroton is incorporated in Cyprus, it has to comply with Cypriot law, as well as with provisions relating to corporate governance issues in the company's Articles of Association and the Companies Law. However, the company is not subject to the requirements of any national corporate governance rules, including the Cypriot Code on Corporate Governance, as it is not listed in Cyprus. The company's board of directors consists of three top managers who are also shareholders of the company (including Mr. Zhuravlov as a chairman of the board) and two independent, non-executive directors who participate in the audit and remuneration committees. The non-executive directors are Ukrainian citizens with marginal linkages to international stock markets. One of them is the former deputy minister of agriculture whereas the other one is the top manager of the state-owned railway company.

■ *Ownership, share and financial transparency*

Agroton regularly publishes interim (semi-annual) and annual financial reports. Its annual reports contain the reports of the board of directors and independent auditor, information on financial positions, cash flows and changes in equity. Agroton's ownership structure is disclosed both in the annual report and on the corporate webpage. The annual report does not cover the results of the company's particular business segments but these results are described in presentations for investors. The prospectus and the offering structure are available on the company's investor relations webpage while share information is regularly updated on the homepage. Personal contacts of the Agroton's investment relations officer are also accessible on the investor relations webpage. At the same time, the company's information about annual meetings often appears on the corporate website with larger delays. The operations of Agroton are followed by four investment analysts from both international and Ukrainian investment agencies.

■ *Corporate social responsibility transparency*

Agroton generally expresses little commitment and pays little attention to disclosure of its CSR activities. Moreover, the company is criticized by local authorities for refusal to implement a diversified business model that would include a broader range of livestock products and create additional jobs. Another point of criticism is a strong focus of Agroton on production of sunflower that exhausts soil fertility if cultivated for

several consecutive years in violation of the scientifically grounded crop rotation schemes³. The company thus often fails to address some important external pressures such as human capital development and environmental sustainability. At the same time, Agroton's CSR activities are only visible through sporadic local mass media reports.

■ *Best communication practices.*

For the most part, the Agroton's corporate website comprehensively addresses its investors and creditors while the information that might be considered interesting to other stakeholders applies only to the carriers' webpage. The corporate website provides information in four languages, website search, and all corporate documents downloadable in PDF format. The possibility to arrange a conference call or leave any feedback information is missing.

■ *Summary on Agroton Public Limited*

Despite being accurate in addressing investors' information needs, Agroton demonstrates poor results with regard to both stock market performance and transparency. The company's technical default on financial obligations is exacerbated by insecurity arising from criticism of local authorities. One reason behind these problems is lack of capability to address relevant stakeholder groups that takes its roots in a low diversity of the board resources. The fact that the same person is simultaneously a founder, CEO and chairman of the board is not uncommon but corporate governance rules provide mechanisms that help bring other people with novel and valuable views to the board. However, the Agroton's board of directors is rather undiversified with its independent directors being rather inside and having minor linkages to both rural community and international equity markets. Uniformity of board perspectives, coupled with a relatively high portion of shares in free float, causes high uncertainty for investors and affects credit ratings and financial performance. It also precludes an adequate feedback to environmental pressure and recognition of the importance of (disclosure on) CSR.

IMC S.A.

IMC (Industrial Milk Company) was founded in 2007 by Mr. Oleksandr Petrov who is the chairman of the board and the main shareholder of IMC (68.66% of shares). 5.05% of the company's share capital is owned by other investors while 26.29% is in free float. IMC is specialized in grain and oilseed production, storage and sales as well as in milk production. The total farmland in use is 136,700 hectares and the storage capacity accounts for 554,000 tons. In 2014, the company produced 22,500 thousand tons of milk. With these indicators IMC is among the top 10 Ukrainian agroholdings in terms of size. The main operation facilities of the company are located in Central and Northern Ukraine.

In May 2011, IMC raised \$24.4 million through an IPO on Warsaw Stock Exchange. The additionally raised funds were directed to expand the company's operations in terms of land use and grain storage. By the end of 2011, IMC established the third production cluster in the Sumy region after acquisition of 6 farms and the grain and oilseeds silo with the storage capacity of 34,000 tons.

■ *Corporate governance transparency*

IMC adheres to the Corporate Governance Rules of Warsaw Stock Exchange but, as a Luxembourg registered holding that is not listed on a stock exchange in Luxembourg, the company is not required to adhere to the Luxembourg corporate governance principles. The role of Mr. Petrov as the chairman of the board is supervisory whereas the company is managed by a hired CEO. Potential agency problems between shareholders and top managers are addressed through membership of two non-executive directors to the board. They lead the audit

³ <http://tinyurl.com/hho7b8j>.

and remuneration committees of IMC. Both are foreign citizens and have a background in a Germany-based research institute and Poland-based investment agency.

■ *Ownership, share and financial transparency*

IMC regularly publishes interim (quarterly) and annual corporate reports and supplements them with press releases. Share information and presentations for investors are regularly updated on the company's website. IMC informs its investors and shareholders about corporate events through its financial calendar which is available on the company's website. Six analysts from international and Ukrainian investment banks follow the operations of IMC. Inside information is obtainable through the company's investor relations officer whose contacts are accessible through the webpage. The IMC's webpage also contains its IPO prospectus and the offering structure; information about owners and shareholders is presented on the website as well as in the annual report. Along with the shareholder structure, the annual report discloses statements of the board of directors, financial position and cash flow of the holding. The results of particular business segments are described in presentations for investors.

■ *Corporate social responsibility transparency*

IMC expresses commitment to CSR and implements its social program 'IMC. Aid to People' aiming to develop social infrastructure in the regions of its operations. The company reports about its CSR activities on the corporate website. These activities are implemented both ad hoc and within a range of support mechanisms developed in terms of the company's social program. Single actions such as medical treatment support to rural individuals are combined with an ongoing sponsoring of schools and kindergartens, provision of villages with electricity and water supplies. Local community development is the primary dimension of the company's CSR. The IMC managers are also members to the social committee of the business association 'Ukrainian Agribusiness Club' where relevant problems of rural areas are discussed with other agrohholdings.

■ *Best communication practices*

Apart from reports, investor presentations, CSR programs and membership to business associations, IMC interacts with investors and public by means of its website. The company's website contains information in four languages, website search, quick links and downloadable PDF-documents. At the same time, feedback forms and the possibility of direct conference calls are missing.

■ *Summary on IMC S.A.*

Despite a relatively small share of capital in free float, IMC continues to be transparent to both the investors and general public. Partial separation of ownership and control and presence of two foreign independent directors are likely to contribute to this result. The company's management recognizes the importance of CSR for business survival whereas accuracy of financial and corporate reporting can be associated with sound stock market performance.

Mriya Agro Holding Public Limited

In August 2014, one of the largest Ukrainian agrohholdings Mriya reported its failure to make bonds interest payments and was delisted from the Frankfurt Stock Exchange (FSE). The company's debt amounted to \$1.28 billion at that time. In January 2015, the name of Mykola Huta, the co-owner of the defaulted Mriya, was placed on the Interpol's list while the Ministry of Interior of Ukraine sought him for defrauding of over \$100 million from foreign investment funds⁴.

⁴ <http://bankwatch.org/node/11360>.

The story of this downfall is astonishing in the view of the fact that Mriya was a showcase of a family-owned business that became one of the largest agroholdings in Ukraine. Mriya was founded by the parents of Mykola Huta in 1992. From owning 50 hectares of arable land in 1992, Mriya grew to operate 320,000 hectares in six regions of Western Ukraine. In 2008-2014, the company was listed on the FSE with 20% of share capital being in free float. The company's capitalization reached \$1.1 billion at its peak in 2010. Since 2010, the World Bank Group's International Finance Corporation has provided Mriya with three loans amounting to \$175 million that helped Mriya finance the commodities, land lease rights, storage capacities, and working capital. The European Bank for Reconstruction and Development (EBRD) supported Mriya's pre-harvest and post-harvest production with a \$24.1 million loan. Additionally, export credit agencies such as the Export-Import Bank of the United States and Danish EFK have provided credit and guarantees for Mriya to purchase machinery and equipment from the US and Danish companies⁵.

In pre-default times, the Mriya's board of directors consisted of eight persons. Four of them were the Huta family members while the rest included two inside directors and two outside members to the board. The outside, non-executive directors had their backgrounds in the EBRD and international asset management agency, thus possessing strong connections with the international equity markets.

Along with business expansion and borrowing activity, Mriya invested in the development of rural areas and human capital. The company founded the first Ukrainian private school in agronomy where the post-graduates of agricultural universities improved their qualification in seed production, crop physiology, phytopathology, agricultural machinery and production technologies⁶. In cooperation with the Kyiv School of Economics and the Lviv Business School, the company launched an agricultural master of business administration program named 'Mriya Leaders Academy'⁷.

After the default announcement, control over the company's assets was transferred to its creditors – primarily European and American investors – who decided to preserve the agroholding and appoint a completely new crisis management team. Since then, the company closed most of its financial information for some time. Only presentations for creditors with the updates on business optimization were made public. In 2015, the company started to disclose its semiannual and annual financial statements again. The new management team also reported that Mriya continues its CSR programs such as support to rural schools, churches and hospitals.

Today Mriya operates approximately 180,000 hectares of farmland and is specialized in sugar beet, wheat, potatoes, rapeseed, corn and soybeans. The company has its own seed production, agricultural and logistics equipment, silo complexes, granaries and potato storage facilities.

■ *Summary on Mriya Agro Holding Public Limited*

Mriya represents a striking example of how opportunism in top management can obviate advantages of the international listing, hamper the company's reputation and deinstall effective feedback mechanisms. Ineffective corporate governance and entwinement of ownership and control enabled cross-holdings and underreporting and finally led to the technical default and delisting.

The main results of the presented case studies are summarized in Table 4 and discussed in the subsequent section.

⁵ <http://tinyurl.com/zxjz5ml>.

⁶ <http://tinyurl.com/z32zepn>.

⁷ <http://tinyurl.com/gr3ue58>.

Table 4. Summary of case studies.¹

	MHP S.A.	Agroton Public Limited	IMC S.A.	Mriya Agro Holding Public Limited
Corporate transparency				
Corporate governance disclosure	High	High	High	High
Investor, share and financial disclosure	High	High	High	High after IPO Low after default
CSR disclosure	High	Low	High	High after IPO Moderate after default
Adherence to best communication practices	High	Low	Moderate	High after IPO Low after default
Performance and operations				
Stock performance	Stable	Declined significantly	Declined	Increased after IPO Delisted after default
Net profit	Increased	Net loss decreased	Increased	Increased after IPO Net loss after default
Land use	Increased	Stable	Increased	Increased after IPO Declined after default
Transparency-related characteristics				
Free float	High Increased significantly after IPO	High Increased slightly after IPO	Low Increased slightly after IPO	Constantly low Delisted after default
Number of investment analysts	High	Low	Low	n.a.
Board diversity	High	Low	High	Low Crisis management after default
Product differentiation/vertical integration	High	Moderate	Low	Moderate

¹ IPO = initial public offering; CSR = corporate social responsibility; n.a. = not available.

5. Discussion and conclusions

This paper suggests that it is crucial to view the concept of corporate transparency holistically by considering the needs of both the investors and general public for firm-specific information. While prior research has mainly addressed different aspects of corporate transparency separately (Botosan, 1997; Bushman *et al.*, 2004; Russo and Fauts, 1997), our results demonstrate that an integrated approach toward this issue may have a number of important implications for agroholdings and their non-owner investors.

For investors, the detailed information about the large corporate farms that operate in transition or emerging market economies is important due to a high level of uncertainty associated or even complicit with weak governance regimes in those economies. The investors also need to decide under which conditions it is safe to invest into an industry characterized by severe exposure to societal pressures and imperfect conditions in factor markets.

A showcase for a positive investment decision would be an agroholding that demonstrates best communication practices and comprehensively discloses information on its corporate governance, ownership, share performance, financial results and social responsibility. Disclosure on most of these information aspects is

mandatory for publicly listed companies incorporated under the laws of developed economies. Ukrainian publicly listed agroholdings make no exception in this respect as their head offices are located in the EU countries. These agroholdings exhibit accuracy in presenting the most important pieces of investor information and are efficient in the use of modern communication technologies. However, irrespectively of the scope of mandatorily disclosed facts and figures, information may often be distorted or even false. This holds even if the firm characteristics that allegedly contribute to higher corporate transparency are in place. Institutional ownership and stock price performance (Healy and Palepu, 2001) are good signs of a transparent agroholding, but, as exemplified by Agroton and especially Mriya, these characteristics are not decisive when the need to prevent top management's opportunistic behavior arises.

Our findings suggest that the effective board diversity has to be achieved in order to preclude opportunism of an agroholding's top managers that act simultaneously as members to the agroholding's board. Following the logic of Bushman *et al.* (2004), we maintain that the significance of governance-related transparency in explaining the investor decisions is high. However, wide representation of a 'stronger' governance regime, i.e. presence of a number of international directors on an agroholding's board, is a positive signal that reinforces reliability of the declared high level of transparency.

To this effect, our results suggest that some closely held agroholdings, especially those that have developed from small family farm businesses, may exhibit a higher penchant for opportunism than do companies with more widespread ownership. This happens because closely held firms fail to recognize that an international listing implies strategic change for them, requiring adaptive actions such as expansion of the circle of individuals involved in decision-making and monitoring (Brunninge *et al.*, 2007). To fully appreciate this point, recall Mriya where a half of the board members were founder family members whereas a high level of disclosure to both the investors and general public was not yet indicative of the company's creditworthiness.

For agroholdings, an integrated approach toward corporate transparency is important because it is conducive to preserving access to international equity markets as a source of additional capital on the one hand. On the other hand, the holistic view on transparency is even more viable in transition and emerging market economies where it is likely to help publicly listed companies to reduce uncertainty that arises from existing path dependencies and imperfect factor markets.

The examples of MHP and IMC give evidence that highly transparent agroholdings are more likely to attain stable stock performance even during crisis times. Fulfillment of investor requirements, compliance with corporate governance rules and best communication practices are generally likely to contribute to the improved competitive position of an agroholding. However, the real-world pursuit of competitive advantage by agroholdings takes place in the context of transition and emerging market economies. In these economies, existing rules and regulations are often lagging behind not only those applicable to internationally listed companies but also those necessary to alleviate the effects of disruptive agricultural technologies.

Their enormous size and improved access to capital notwithstanding, agroholdings are part of the process neatly captured by Willard Cochrane's agricultural treadmill (Cochrane, 1958). According to this concept, aggravation of farming's terms of trade as well as growing farmland prices compel agricultural producers to constantly introduce new technologies in order to survive rather than to be profitable in a long run. Inducing high social costs discernible in the declining numbers of farmers and absentee land ownership, this process particularly proliferates in the situation when most farmers are renting their land (Levins and Cochrane, 1996).

In Ukraine, where most farmland is being rented by agricultural enterprises, one of the effects of Cochrane's treadmill is a growing societal pressure on agroholdings evidenced by an ongoing political debate on the possibility to increase farmland rent prices and agricultural taxes. This way CSR of agroholdings gains in importance because care of local communities helps to achieve landowners' and employees' loyalty and relieve pressure from the society. CSR of agroholdings is thus essentially instrumental and serves as a license to operate in an opportunistically disposed environment. However, the remaining pressure from

local authorities, NGOs, and national and international media underscores the role of CSR disclosure that was stressed by organizational theorists some time ago (Branco and Rodrigues, 2006; Teece *et al.*, 1997). Our findings suggest, in turn, that CSR transparency is important not only for highly product-differentiated firms that are generally expected to be more transparent (e.g. Nehrt, 1996) but also for the commodity-specialized companies that compete primarily on the basis of price and are thus exposed to the agricultural treadmill's effects.

Overall, our results provide empirical evidence that the concept of corporate transparency captures the ostensibly non-concurrent postulates of transaction cost economics, agency theory, business ethics and competitive advantage theories. In other words, corporate transparency is an instrument that helps firms to solve information and agency problems, obtain environmental justice and gain competitive advantage simultaneously. Firms that strive to capitalize on higher transparency would be compelled to adhere to best practices that are synonymously envisaged by different literature streams. These firms would need to implement stakeholder management (Jones, 1995), move away from compliance models to strategic models of environmental management (Miles and Covin, 2000) or engage into strategic philanthropy instead of cause-related marketing (Porter and Kramer, 2002).

In conclusion, we argue that a significant (positive) side-effect of the agroholdings' listings in international financial markets is that they are forced to be transparent with respect to their activities as well as results. As farming is particularly controversial nowadays, this higher transparency may contribute to more public trust whereas agroholdings may benefit substantially in the long run if they provide more evidence that they contribute positively to social responsibility and rural development.

Supplementary material

Supplementary material can be found online at <https://doi.org/10.22434/IFAMR2016.0055>.

Table S1. Characteristics of Ukrainian publicly listed agroholdings.

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