

Review Paper

Influence of the M&A of Agricultural Companies on the Development of the Rural Areas

Olha Honcharenko¹ and Iryna Honcharenko^{2*}

¹Department of Corporate Finance and Controlling, Kyiv National Economic University named after Vadym Hetman, Kyiv, Ukraine

²Department of Public Administration, Management and International Economics, Mykolaiv National Agrarian University, Mykolaiv, Ukraine

*Corresponding author: iryna-honcharenko@ukr.net (ORCID ID: 0000-0001-9670-9812)

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ABSTRACT

The purpose of the study is to establish the main areas of influence of agribusiness, through the conclusion of M&A transactions on the development of adjacent rural areas and non-agricultural businesses. The authors used methods: generalisation-systematisation of scientific provisions; analogy and comparison – characteristics of changes in agricultural companies after the conclusion of M&A transactions; analysis and synthesis – features of the functioning of agricultural companies and their impact on the development of rural areas; algorithmization – definition of conceptual provisions for improving the problem under study. The areas of the impact of agribusiness on rural development were substantiated to achieve the goals of the study. The study describes the M&A market in the context of the most influential economic sectors of the country, highlighting the role and place of the agricultural sector. The values of land plots in land banks of the ten largest agricultural enterprises of Ukraine are analysed. A comparative description of individual agrarian companies that were parties to M&A transactions for 2020–2022 is conducted. A number of factors that affect the development of rural areas after the conclusion of M&A transactions are identified. It is determined that the regional development policy should be based on mutual cooperation between rural communities and agricultural companies. The practical significance of the study is that the consolidation of agricultural companies and the expansion of their field of influence on the region, including through active cooperation with local communities, will allow for achieving high indicators of socio-economic development in rural areas.

HIGHLIGHTS

- Although the agricultural sector of Ukraine is characterised by high productivity indicators in any period of socio-economic development, Western investors and Ukrainian experts assess the country in the context of a large untapped agricultural potential.

Keywords: Mergers and acquisitions market, agro-industrial complex, socio-economic development, highly qualified specialists, innovative technologies.

An international trend of the last few years is the implementation of intensive rural development programmes. In particular, support for business activities in the field of agriculture, establishing strong ties between local self-government bodies and the private agricultural sector of the economy (Largest M&A deals..., 2021). Regarding the countries of the European Union, in most cases, this refers to supporting small and medium-

sized farms in the context of harmonious rural development while preserving the integrity of agroecosystems. However, in some countries, such a dispersion of small farms, given the rather small area of land cultivation, does not bring the desired

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indicators of economic efficiency. In particular, this is affected by the lack of a competitive market that would encourage the production of high-quality agricultural products within a specific region with a predominance of rural areas.

In the case of Ukraine, which is an agrarian country with a predominance of agricultural land areas, which make up about 70% of the total territory, the harmonious development of large agricultural companies in combination with rural areas is a mechanism for economic stability and social compliance with regional development (Top 10 largest..., 2022). That is, powerful agricultural companies are the so-called optimisation tool in the efficient use of agricultural land and the functioning of the agricultural market, which in turn stimulates the development of social, transport, engineering infrastructure, and job growth.

However, the business model of an agricultural enterprise requires a constant increase in profitability indicators. One of the most effective methods used to improve the efficiency of an agricultural company is to expand its scope of activity by entering into M&A transactions. However, the success of the results of concluded transactions depends on a large number of factors that require more detailed research.

M. Mohylova (2021) examines methods for determining cost indicators at all stages of mergers and acquisitions of agricultural companies in the context of the priority of their application, the further conduct of agricultural business, and its impact on regional development. The author analyses current trends in the European, American, and Ukrainian M&A markets. The place and role of the agricultural sector in the M&A market in Ukraine by the volume of agricultural production in general by enterprises and individual regions, and the growth rate of gross production, labour productivity, and other quantitative parameters are also determined. The researcher suggests applying various methods for estimating the value of the agricultural business and assets, considering the specific characteristics of the sector, and the current state of the industry and the M&A markets.

The purpose of the study is to substantiate the phenomenon of agricultural companies and their role in the evolutionary processes of agrarian reform

in Ukraine and highlight its main areas of influence on the development of infrastructure, socio-economic well-being of rural areas in the context of constant expansion, consolidation through the conclusion of M&A transactions.

MATERIALS AND METHODS

The information base of the study was compiled from the reports of the InVenture investment portal, statistical data of the report of the European Commission "Support of investments in Europe", the results of observations of the International Competence Centre for large-scale agriculture and reports of McGraw-Hill Corporation Standard & Poor's subsidiary on the results of analytical examination of the financial market. In the course of the study, the data from the rating of the largest M&A transactions in agribusiness in Ukraine was used according to the official website of Landlord magazine and the official Agrotimes and Agroportal news websites. The main reforms, strategies, and plans of the Ministry of Agrarian Policy and Food of Ukraine, in particular, the provisions of the concept of rural development and the action plan for the implementation of this strategy, were considered in detail.

The study of the problematic aspects of the research subject required the use of a broad interdisciplinary field of Agricultural Sciences, covering the exact, natural, economic, and social sciences. The studies of Spanish, Pakistani, Portuguese, Ukrainian, British, Austrian, and Swedish researchers in the field of investigating the specific features of the influence of large agricultural companies on the development of rural areas, considering the constant expansion of the land bank, were also considered, namely: evolutionary changes in agribusiness and their impact on the management of conventional types of farming; the impact of the M&A market on the competitiveness of agricultural enterprises located in the same region; features of Rural Development in harmonious compatibility with agricultural companies in the context of the impact on global food security; the use of digital double technology to create a model of rural development and its impact on the management of rural areas agribusiness.

A set of general scientific research methods was used to achieve the goals of the study, in particular: method of analysis; generalisation method; method of analogies and comparisons; synthesis method; abstract-logical method; algorithmization method.

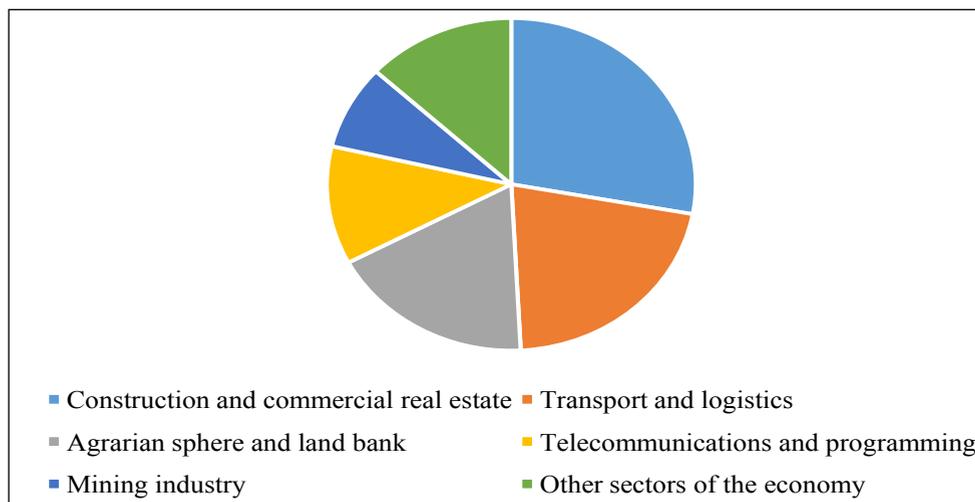
RESULTS

The agro-industrial sector of Ukraine is one of the leading sectors of the economy and plays an important role in balanced socio-economic development both at the national, regional, and local levels. The territory of agricultural land is about 70% of the total area, and villages and towns – about 28000 (Top 10 largest..., 2022). That is why, due to the large concentration of rural settlements, over the past decades, public-private partnerships have implemented a large number of measures for the full territorial development of villages and settlements, which meets the modern needs of local residents. In particular, an important mechanism for implementing these goals is the functioning of large agricultural enterprises with high indicators of economic efficiency of land use (Pavliuk and Nechay, 2019).

An important factor in the constant increase in the capital of agricultural companies is an increase in agricultural production indicators and the area of the land bank (The government is betting..., 2022). This happens through the functioning of the mergers and acquisitions market, which provides for the financial growth of the company by: merging

two or more firms on the initiative of their owners with the subsequent formation of one combined economy, which operates based on the charter or contract; the takeover of one enterprise by another; merger of companies by alienating a controlling stake in the existing owner to another owner (initiator) with his further control over the company and cross-ownership of the block of shares. It is advisable to apply the principles of functioning of the M&A market in the context of the most influential economic sectors of the country when companies reassess their investment plans, adapt to certain external factors such as the pandemic, regarding the world community, and Russia's military aggression, regarding the situation on the territory of Ukraine (Fig. 1).

The analysis of Fig. 1 reflects a certain gradation of the most important sectors of the economy by the number of M&A transactions, which were determined based on the government report during the Forum "Dialogue of civil society, business, and government" by representatives of the Ministry of the Economy of Ukraine and the Ministry of Social Policy (The government is betting..., 2022). Among the presented industries, the agro-industrial complex took 3rd place. In particular, since 2021, the scale of large agricultural companies continues to grow on the territory of Ukraine through the acquisition of small and medium-sized farms (Largest M&A deals..., 2021). In most cases, such M&A transactions relate to certain segments of agricultural activity, in particular, crop production.



Source: Mergers and acquisitions (M&A) market in Ukraine 2020: All the hopes are laid on our investors (2020).

Fig. 1: Analysis of the number of M&A transactions by the most influential sectors of the Ukrainian economy in 2020-2022

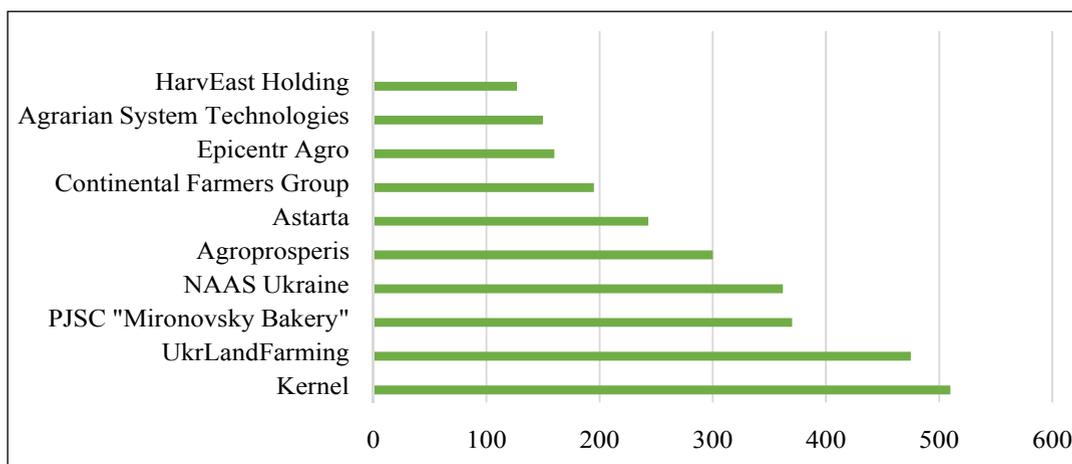
That is why an important condition for the effective functioning of the mergers and acquisitions market is the increase in the area of land banks of large agricultural companies, and the use of substantially more efficient means and materials of labour, innovative equipment, resource-saving technologies, which are the direct basis for growing agricultural crops (Fig. 2).

As of 2022, there were about 150 agricultural companies in Ukraine, the monetary capital of which exceeds tens of millions of dollars. Most of the agrarian enterprises, in particular, those shown in Fig. 2, have always shown an interest in expanding business opportunities through M&A transactions and obtaining new material and financial resources, which include not only the land bank but also human capital, innovative technologies, land cultivation equipment, grain elevators, technical means for processing and storage of grain. According to an independent expert assessment by Landlord magazine and the investment company InVenture, starting from 2020, Dragon Capital, Concorde Capital, Alexandrov & Partners, and Asters are the leaders in conducting agricultural business in the M&A market (TOP 10 investment transactions..., 2018).

The study analyses the features of combining them with the definition of new opportunities and volumes of increasing material and financial resources, and the further conduct of agricultural business and its impact on regional development. In particular, for each such M&A transaction,

the following are characterised: new types of agricultural activities of the company; the volume of increased land bank area; types of secondary industrial activities; the number of areas in which the field of entrepreneurial influence of the company extends; the contribution of the expanded company to the development of transport and engineering and communication infrastructure in the region; new opportunities for trade and procurement relations.

After the conclusion of the agreement between Cygnet Group and Ruzhinsky Krai, since 2019, the land bank area is 29 thousand hectares. Agricultural activities of enterprises are concentrated in the Zhytomyr and Vinnytsia regions. In particular, the infrastructure of the company includes an elevator with a capacity of 60 thousand tonnes. The main activity of the enterprise is the cultivation and sale of agricultural products in the field of crop production, in particular, vegetables. Notably, the company is also engaged in dairy farming, while cooperating with processing companies of regional importance (TOP 10 investment transactions..., 2018). Admittedly, an important condition for the diverse development of business activities of large agricultural companies is the provision of highly qualified personnel who would have the appropriate knowledge and skills to work with the latest technologies of land cultivation, cultivation of high-quality agricultural products, and obtaining meat and dairy raw materials in accordance with technological requirements for its further sale and



Source: Rating of agro-holdings by quantity of land (2023).

Fig. 2: Delineation of land plots in land banks of the ten largest agricultural enterprises of Ukraine according to the Tripoliland and Landlord Agricultural Media Holdings

transformation into high-quality food products. Notably, the organisational and managerial sector of each agricultural company should contain a management system for the effective operation of all important areas of the activity of the company, which ensure the profitability of each life cycle. In particular, based on strategic planning departments, programmes for the development of agricultural activities, and the necessary infrastructure at the regional level should be developed with the support of rural residents (Nchanji *et al.* 2023; Kross *et al.* 2022).

However, despite all the positive factors of the influence of enlarged agricultural companies on the development of rural areas, it is necessary to maintain the adjacency of such a connection in two areas: an agricultural company – a rural territorial community and its residents, and vice versa – a rural territorial community and its residents – an agricultural company. In the absence of such a partnership, the connection between the community and the agricultural company will gradually be lost, which means that the specific features of regional development will change due to the deterioration of infrastructure and the reduction of types of business activities in which local residents are involved. Therefore, the connection between the agrarian company and the territorial community should be based on: balancing various organisational and legal forms of conducting agricultural business for the most efficient use of the resources of the region – labour, capital, entrepreneurial abilities of the population; encouraging local residents to study agricultural specialities and continuously improve their professional skills; cooperation of local self-government bodies with agricultural companies in the context of solving financial support for the latter and purposeful support of the community in increasing the competitiveness of agricultural products of the regional agrarian complex.

DISCUSSION

It is important to understand that the consolidation and merger of agricultural companies through M&A transactions affect the development of rural areas and the region in general. Ultimately, one of the important trends in the functioning of agricultural business in the territory of Ukraine is the presence of the so-called corporate culture

and the responsibility of agricultural companies for improving social well-being and improving the infrastructure of rural areas. That is, the functioning of successful, leading agricultural enterprises is one of the important factors that positively affect the development of villages and towns (Bethwel *et al.* 2022; Ma, 2020). According to European and American experts, the main problem of agricultural companies the activities of which are concentrated in countries with market economies is the dispersion of small land plots between small farms. If such a problem exists, it indicates that the institutional and legal norms in the field of agricultural activities are not sufficiently adapted to the realities of today. Admittedly, the national policy of Ukraine is aimed at the development of such a defining field of the national economy as agriculture through the improvement of the legislative framework and the main mechanisms that stimulate the development of a market economy, considering the conclusion of M&A transactions (Kebede *et al.* 2021).

The authors fully support the importance of the study results of researchers on ensuring economic efficiency in conducting agricultural activities with minimal negative environmental consequences on the environment because there is a periodic increase in the scale of large agricultural enterprises in the context of their impact on rural development (Ricciardi *et al.* 2018; Olen *et al.* 2021). In particular, most agricultural companies in Ukraine have obligations to comply with the requirements established by the international certification system for sustainability and carbon monoxide emissions and have the appropriate ISCC certificates. It is also important that the policy of agricultural companies is aimed at producing environmentally friendly, organic products that meet international standards. That is, obtaining high-quality products affects the development of rural areas in the context of the functioning of an extensive field of supply and sale of agricultural goods (Wubneh, 2018; Purcell *et al.* 2023).

Unlike researchers from Austria, the authors did not consider the features of using specialised software to create a digital model for the development of agricultural companies in the context of sustainable agricultural production with an impact on the development of rural areas and the region in general. However, this area requires mandatory detailed

examination as an independent object of research in modern conditions of active digitalisation and the use of geographic information systems and technologies for database systematisation, and the creation of necessary cartographic materials (Katapidi, 2021).

Unlike the above-mentioned researchers, the authors did not consider the features of the prospects for global food demand, which will be influenced by the relationship between the development of rural areas and large agricultural companies located nearby and spreading all areas of activity in the region. However, forecasting the demand for food products should be considered in the initial spatial planning. That is, regional rural development programmes should include the characteristics of those segments of agribusiness that are acceptable for this particular area while understanding the cultivation of agricultural crops or the production of dairy products (Sasu *et al.* 2022). As for the functioning of large agricultural companies, their desire to merge with other agricultural enterprises and increase the land bank will always be one of the important methods of finding new material and financial resources with the subsequent expansion of business activities.

CONCLUSION

Transformation processes in the agricultural sector have always had an impact on the development of rural areas through the implementation of efficient and rational use of agricultural land. It has always been important to consider three aspects of such changes: social, economic, and environmental. In other words, the harmonious coexistence of the agricultural sector and society should be based on balancing the interests of each of the parties. In the case when one factor changes, it also affects another: the level of soil pollution reaches unacceptable indicators for further cultivation of agricultural crops – the ecological aspect; land becomes less productive, respectively, production volumes and product quality change – the economic aspect; as a result of environmental and economic changes, there is a deterioration in the standard of living of the rural population, the state of infrastructure in the region worsens, the number of jobs decreases and the need for the development of various types

of agricultural entrepreneurship disappears – the social aspect.

The M&A market in the agricultural sector requires agricultural companies to have investment attractiveness, which is reflected in the high level of investment efficiency indicators, compliance of business activities with international norms and standards, the use of the latest technologies, equipment, and software. Compliance with this level of investment attractiveness with the subsequent conclusion of M&A transactions requires research in the following areas: improving the training of highly qualified agricultural specialists through state support in providing high-quality educational services; applying effective, innovative methods of land protection and maintaining a high level of soil fertility as a basis for farming; minimising the negative impact of the work of an agricultural enterprise on the environment through an effective environmental management system and compliance with the requirements of the International Sustainability and Carbon Certification voluntary certification system.

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