

## The Relationship Between Agricultural Holdings and Municipalities

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### Abstract

The aim of the paper is to assess the differences in opinions on relation of agricultural holdings (agri-holdings) and the municipalities. Whether the relationship rating depended on the intensity of cooperation in particular area (social life, public benefit activities, ecological activities and strategic planning) was tested.

The relationship was rated positively in majority of cases which helped to create social capital in the locality. Strong influence on it had sponsorship of the fire brigade (from point of view of agri-holdings). From the standpoint of municipalities, almost all activities were important. Better promotion of agri-holdings' activities in all areas can be suggested as not all actions of agri-holdings were known to the representants of the municipality. Negative relationship was mainly due to the agri-holding damaging the environment. Hence, responsible behaviour is an important for the agri-holding reputation.

The paper was supported by the Ministry of Agriculture (MZE-RO0922), Internal Research Project of IAEI no. 1117/2023.

### Keywords

Agricultural holding, social responsibility, municipality, relationship, social capital, stakeholder.

Šimpachová Pechrová, M. and Šimpach, O. (2024) "The Relationship Between Agricultural Holdings and Municipalities", *AGRIS on-line Papers in Economics and Informatics*, Vol. 16, No. 1, pp. 105-116. ISSN 1804-1930. DOI 10.7160/aol.2024.160109.

### Introduction

Stakeholder is a person or group that can influence the firm and is influenced by the firm such as suppliers, customers, employees and management of the firm, state, municipality's representatives etc. Agricultural firms have special position as their activities influence large groups of stakeholders, because agricultural activities take place in certain cadaster of the municipality / municipalities. Also, agriculture can be considered an important activity in rural areas and the interaction between local government and the agricultural entity is part of rural life (Boukalová and Pechrová, 2013).

Therefore, their relations toward the environment and stakeholders are essential. Corporate social responsibility (CSR) in agriculture has been assessed recently by many scholars, especially in the context of the environmental protection and rural development. "It is widely acknowledged nowadays that agricultural production has to comply not only with the economic and legal requirements, but also with the ethical responsibilities" (de Olde and Valentinov, 2019). "CSR is considered the response to the increasing social demand aiming to create the win-win situation for all

actors of supply chain and society." (Levkivska and Levkovych, 2017).

CSR represents a broad concept where the firms is voluntarily involved in a series of commitments towards the society and the environment beyond legal and regulatory requirements. These commitments involve considering the expectations and interests of all the agents that affect or are affected by the company's activity. In this regard, the stakeholder theory (Freeman, 1984), which is one of the most widely used in the literature on CSR, claims that an organization is made up of a series of agents (stakeholders) that affect its activity or are affected by business decisions. From this point of view, "CSR can be observed as a multidimensional concept in the agri-food domain, which captures CSR orientation towards shareholders, employees, customers, farmers, community, and competition, as main firms' stakeholders" (Coppola et al. 2020).

The stakeholder theory believes that the exchange and division of various resources between a corporation and its stakeholders is a necessary condition for its success (Yuan and Cao, 2022). "Organizations are dependent on stakeholders for many reasons, from survival, the fulfilment

of goals, success and value creation, to providing resources or a license to operate.” (Miles, 2017). The activities have several layers. Carroll (1991) created a pyramid of CSR where the base are economic responsibilities, then there are legal, ethical and philanthropic responsibilities. However, Luhmann and Theuvsen (2017) who focused on consumers’ perception of CSR by agricultural holdings in Germany found that “consumers distinguish between different responsibility levels, that is, they separate economic commitment from other internal and external aspects of a firm’s CSR commitment but do not actually distinguish between legal, ethical and philanthropic responsibilities.” (Luhmann and Theuvsen, 2017).

CSR activities shall contribute to the competitiveness of the firm and enhance their reputation. The link of company’s CSR practices to firm’s financial performance is through the reputational mechanisms (Yang and Stohl, 2020). All businesses, in addition to the objective of profit maximization shall observe their effect to the environment, consumers, employees and community. (Matei and Done, 2011) As stated by Mazur-Wierzbicka (2015) socially responsible farmers should pay attention to sustainable agricultural production, which is environmentally friendly, the welfare of farmed animals, food security as well as job creation, and the development of the employees.

Our article focuses on the relation of agricultural holdings (agri-holdings) and municipalities. We examine large firms, because we expect that there is a higher pressure on socially responsible behavior towards the stakeholders. See e.g., Udayasankar (2008) who found out that “smaller firms may face fewer pressures compared to large ones and receive little recognition for their CSR because of their lower visibility.” The relationship between municipalities and rural areas was studied by Rosas and Noriega (2014). They found only weak involvement in CSR actions in the municipality of Guasave, Sinaloa, Mexico except for one farm whose business objective covers both economic, social and environmental issues.

We can perceive the agri-holding as a corporate firm and the municipality as one of the most important stakeholders that affects the decision-making of a firm. The cooperation between them can lead to enhancement of the social capital in rural areas. The aim of the voluntary CSR commitments is to strengthen the relation with the stakeholders. Therefore, it can be expected that activities that are done in favor

for the inhabitants of the municipalities bring better relation. In this sense, the cooperation can help to the creation of the social capital in the locality. We refer to the Putnam’s definition of social capital that is treated as a public good – the amount of participatory potential, civic orientation, and trust in others available to cities, states, or nations. For Putnam (1993) social capital are the “features of social organizations, such as networks, norms and trust that facilitate action and cooperation for mutual benefit”.

## **Materials and methods**

The aim of the paper is to assess the opinions of representatives of agricultural holdings on relation of agricultural holdings towards their main stakeholders that are the municipalities where their agricultural activity takes place and vice versa. The differences between answers are examined. The paper follows Internal Research Project number 1117 from year 2018 (IAEI, 2018) when the survey took place. The questionnaires were dedicated for the representatives of agri-holdings and of municipalities. Sample contained 133 agri-holdings farming in the municipality with a maximum of 2000 inhabitants (rural municipality) and with more than 50% share of agricultural land in the cadaster and 120 municipalities. Around 61% of interviews were realized directly with the director, chairman of the agri-holding. There were men in 82.0% of cases, average age was 50.8 years and the highest education was university degree in 66.2% cases (the rest graduated from high school with a degree). The investigation focused on larger corporations – one farm employed 48 employees on average and average acreage of agricultural land was 1565 ha. The legal forms were joint-stock companies (42.9%), cooperatives (37.6%) or limited liability companies. Type of farming was found out only for 1/3 of the sample. Prevailing farming type was mixed production (24.1%), then there was livestock (6.8%) and crop production (5.3%). The rest were undetected.

According to the Eurostat (2020), large agricultural enterprises “are more likely to have a legal form of cooperatives” and have over 100 ha of utilized agricultural land. In comparison with agri-holdings in other member states, the Czech farms are the largest in terms of average UAA in the EU.

In most cases (85.8%), the interview was conducted directly with the mayor of the municipality. The respondents were mostly men (in 69.2% cases).

Their average age was 52.8 years and their highest education high school degree in 64.2% cases. Statistical description of the sample is provided in the Table 1A in Appendix.

The questions and answers were similar for agri-holdings (A) and for municipalities (M). First, the relationship was ranked on a scale from very positive, rather positive, rather negative to very negative (and I do not know). Whether the answers between the representatives of the agricultural holdings and the municipalities differ was tested by  $\chi^2$  test of goodness of fit. Null hypothesis  $H_0$  of the test is that the relative frequencies of the answers are equal for both subjects. Test criterion  $G$  follows  $\chi^2$ , so it is compared with its critical value (1).

$$G \approx \chi^2_{1-\alpha} [k-1], \quad (1)$$

where  $k$  is the number of variants of the answers and  $\alpha$  is a level of significance set on 0.05.

The rating of the relation can be influenced by the extent to which is agri-holding involved in activities from (1) social area (in the life of the municipality), (2) in public benefit activities, (3) in ecological area and (4) in strategic area.

It was tested in contingency tables by  $\chi^2$  test whether the quality of relationship rating depended on the intensity of cooperation area.  $H_0$  states that the variables are independent. Test criterion  $G$  follows  $\chi^2$  distribution, so it is compared with its critical value (2).

$$G \approx \chi^2_{1-\alpha} [(r-1)(c-1)], \quad (2)$$

where  $r$  is number of rows and  $c$  is number of columns in the contingency table. When the value of the test criterion  $G$  exceeds the critical value of the  $\chi^2$  distribution at the appropriate significance level  $\alpha = 0.05$ , the  $H_0$  is rejected and the variables are dependent. The strength of the dependence was measured by Cramer's contingency coefficient  $V$  (3), which takes values from 0 to 1 (0% to 100%). The closer is the value to 1, the stronger the dependence is.

$$V = \sqrt{\frac{G}{n(q-1)}}, \quad (3)$$

where  $n$  is the number of observations and  $q$  is the minimum from rows or columns.

## Results and discussion

Perhaps due to a less formal form of contact between representatives of agricultural firms and representatives of municipalities, they saw the relationship between the enterprise and the municipality generally as positive. Over 70% of joint-stock companies and limited liability firms rated the relationship as rather positive and around 20% as very positive. Cooperatives had better relations, as 32% of representatives rated it as very positive and 60% as rather positive. Only few enterprises had negative relations. 3 joint-stock companies and 2 cooperatives had rather negative relation and 1 limited liability company and 1 cooperative had very negative relation. However, the differences among various legal forms were not significant ( $p = 0.406$ ). Hence, all types of firms have similarly good or bad relationship with the municipalities.

Representatives of the municipalities evaluated the relationship between the municipality and the company positively too. Again, the negative rating was in minority. The answers statistically significantly differed between those two subjects. (Because the p-value of  $\chi^2$  test was 0.000, we rejected  $H_0$  that the frequency of the answers is the same.) There were few "rather" and "very negative" evaluations, so it was necessary to merge them.

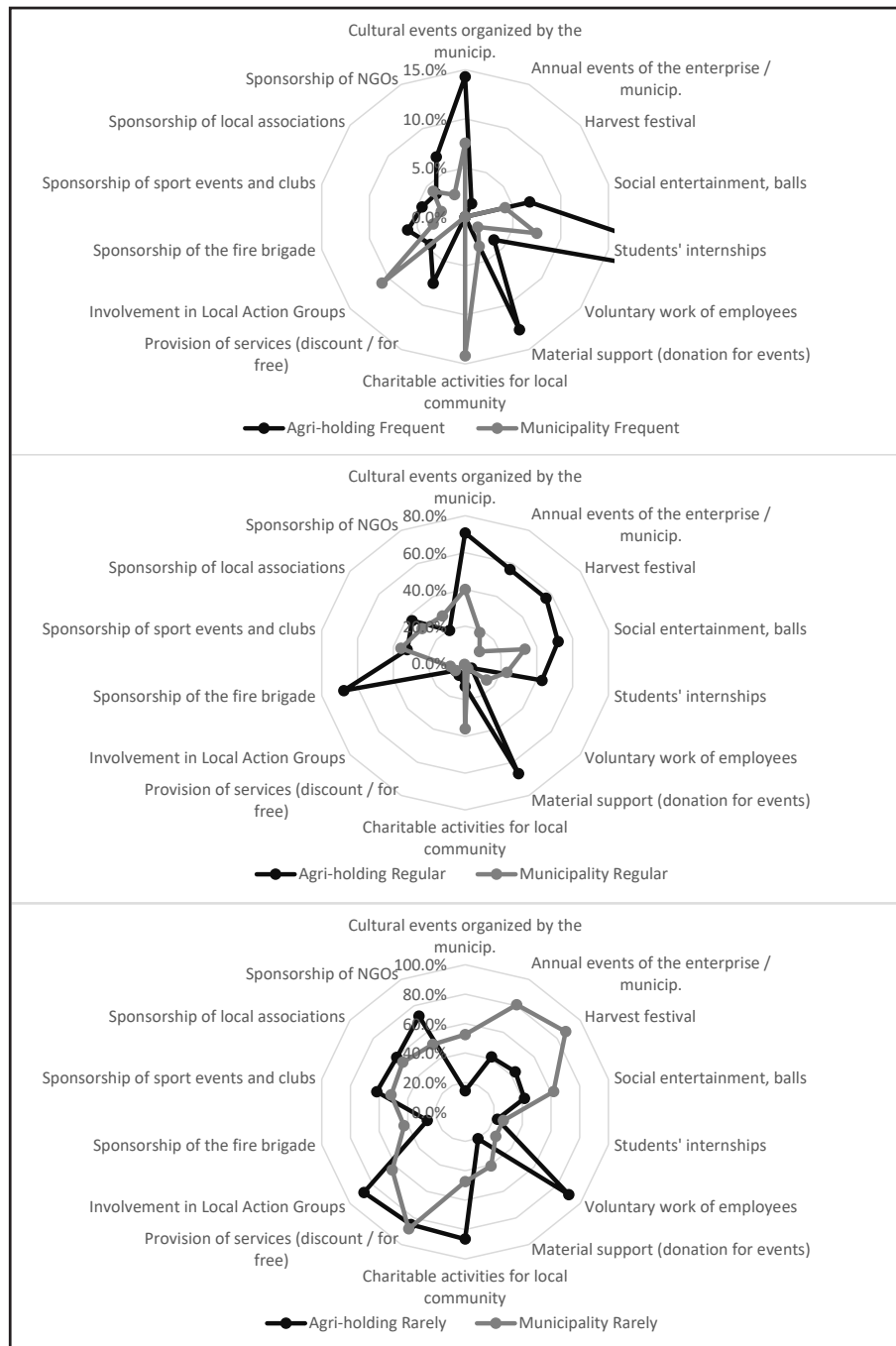
### Social area

Each agri-holding participated in some way in the life of the municipality. Firms differ in the frequency (rate) of their activities, only one company stated that it does not participate at all. Mostly the firms took part in cultural events in the village once or twice a year – mainly because of their nature. For example, 70.7% of agri-holdings participated in events organized by municipalities, 56.4% in annual events of the municipality, 51.9% in social entertainments and balls. Student were accepted on internships in 42.9% of firms. The support of the fire department was the most often represented in the area of sponsorship, which was also perceived by representatives of municipalities (albeit with a lower frequency).

The representatives of the municipalities are more often unable to say whether and how the company participates in life in the village. From the standpoint of the municipality management, agri-holdings participate in cultural events mostly 1–2 times a year. Municipalities perceive more donation of products for events

and providing services with a discount or free of charge. Also, sponsorship that mostly takes the form of donating products to events is recognized by municipalities. The highest support is provided to voluntary fire brigade. The frequency of charity activities and volunteering is low which is reported by firms and municipalities alike. Only few agricultural holdings were involved in the activities of Local Action Groups.

The differences in the answers are quite contrasting as it can be seen from Figure 1. Especially students' internships are done more often than representative of the municipalities know. Only in case of charitable activities for local community, the representatives of the municipalities thought more often that they are done by agri-holdings. Hence, visible actions bring to the company higher visibility and better reputation.



Source: own elaboration

Figure 1: Participation of the agri-holding on the social life in the municipality.

It was further tested whether the frequency of social activities influence the relationship. The answers “I cannot assess” were omitted from the analysis. “Rather negative” and “Strongly negative” categories were merged as there was only few persons from agri-holdings or municipalities who rated the relation negatively. Category of “frequent” and “regular” were merged several times in order to meet the requirement of the  $\chi^2$  test.

From the point of view of the agricultural holding, most social activities did not influence the relationship (the p-values of the tests were higher than 0.05). Only exception was the support of fire brigade, where the relation between an agricultural holding and a municipality depended on the frequency of sponsorship (p-value 0.048). The dependence was very weak ( $V = 19.3\%$ ).

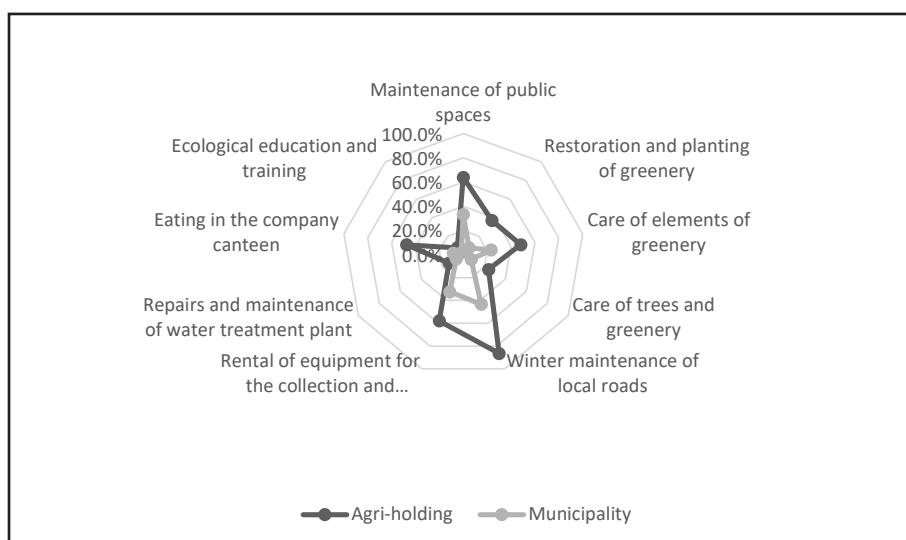
The situation was different from the point of view of the representants of the municipalities. The relationship with agricultural holding relatively strongly depended on how often the agricultural holdings support cultural events organized by the municipality (p-value = 0.000,  $V = 43.2\%$ ). It also depended on whether it supports annual events of the firm / municipality (p-value = 0.005), but the dependence was weaker ( $V = 26.4\%$ ). Similarly organizing of harvest festival and balls was significant (both p-values = 0.002 and  $V = 23.7\%$  and  $V = 27.9\%$ , resp.). The relation depended on if the agricultural holding is accepting the students on internship too (p-value = 0.004), this time relatively strongly in comparison with others ( $V = 34.5\%$ ). Material support (donation on events) was significant too (p-value = 0.008,

$V = 25.4\%$ ). Similarly, as from the point of view of the representatives of agricultural holdings, the relationship also depended on the sponsorship of fire brigade (p-value = 0.013,  $V = 25.3\%$ ). In the same pattern also sponsoring of sport events and clubs and of other local associations was significant (p-values = 0.024,  $V = 23.9\%$  and 0.004,  $V = 29.2\%$ , resp.). Charity activities could not have been tested because of low frequencies.

Also, when the economic ties were investigated, we also asked about regular financial contribution or sponsorship to the municipality for public expenditure and found out that only 11 agri-holdings (8.2%) sponsored the municipalities regularly with amount varying from 5 000 to 150 000 CZK. Average contribution was 50 000 CZK, but median only 20 000 CZK. Mostly, the amount was 5000, 10000 and 20000 CZK.

### Public benefit activities

Support of public benefit activities was various. Figure 2 shows that winter maintenance of the roads is the most frequently activity performed from the point of view firms (86.5%) and municipalities (43.3%). 47.4% of company representatives and 33.3% of municipalities mentioned the possibility of catering in the canteen and delivery of meals as an activity carried out by holding. From the point of view of the company, however, the improvement of public spaces was more significant (63.9% companies, 23.3% municipalities). 57.9% of agricultural holdings provided equipment to ensure the collection and removal of scrap iron in the municipality, but only 32.5%



Source: own elaboration

Figure 2: Participation of the agri-holding on public benefit activities.

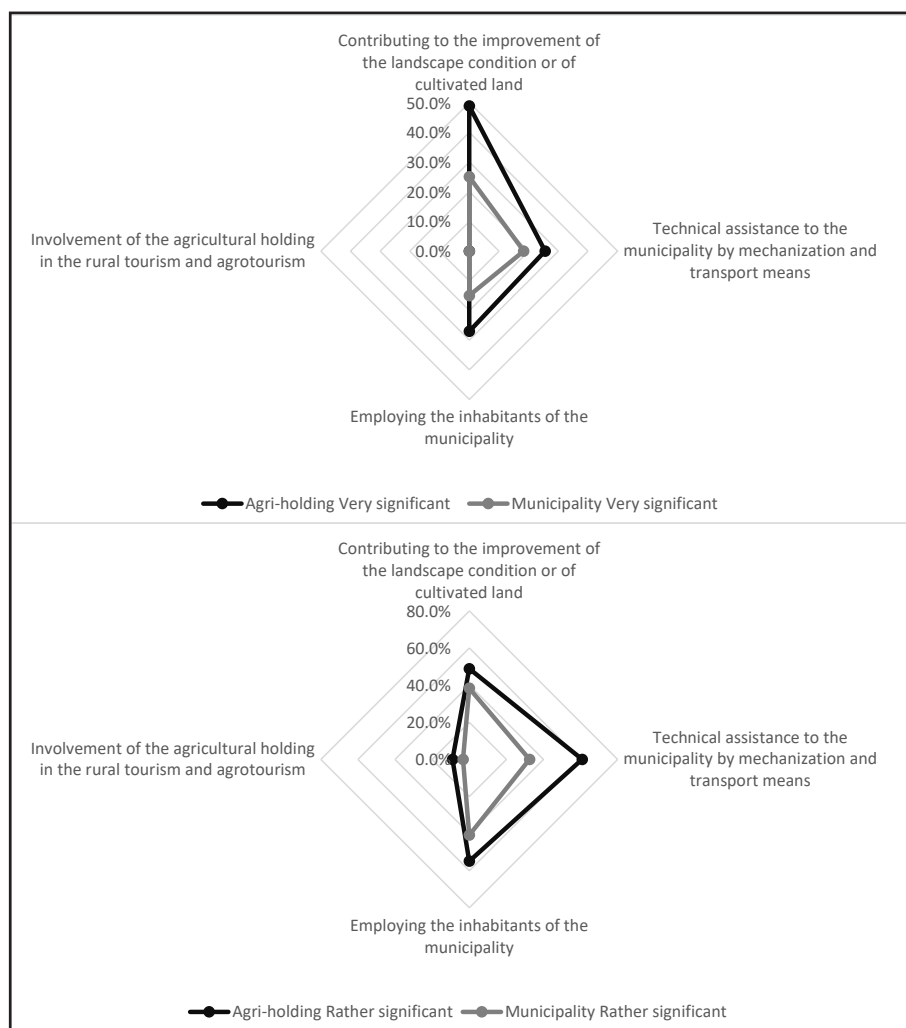
of the municipalities noticed this. While 48.1% of businesses stated that they take care of greenery, only 7.5% of municipal representatives knew this.

No dependency was found from the point of view of agri-holdings between relationship and whether the company participate on public benefit activities.

On the other hand, there was dependence in almost all activities from the standpoint of the municipalities. Only exception was in case of repair and maintenance of water treatment plant and local water supply. Care of elements of greenery and possibility to eat in company's canteen was both significant at 0.1 level as the p-values were 0.075 and 0.062, respectively. The strongest dependence ( $V = 37.5\%$ ) was in case of winter maintenance of local roads. Hence, the public benefit activities are more important from the point of view of the municipalities than of agri-holdings for good relationship between those two subjects.

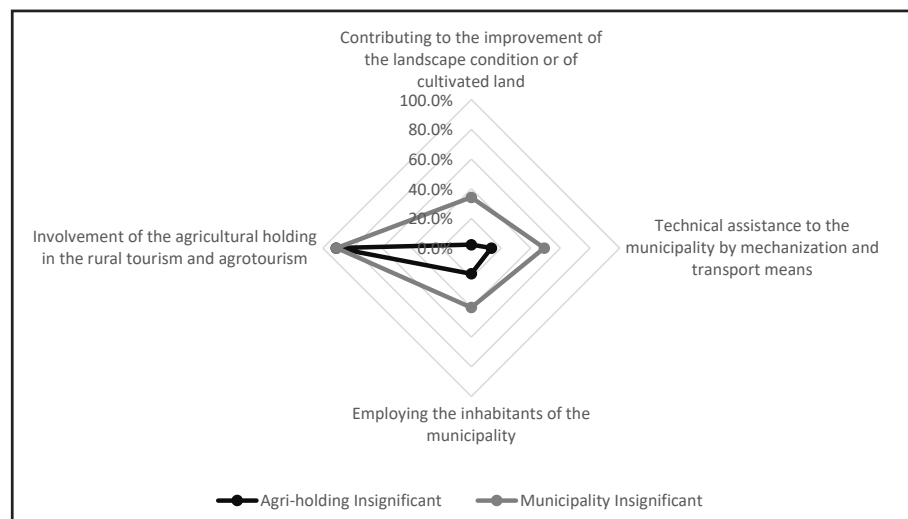
### Ecological area

From Figure 3 can be seen that agricultural enterprises contribute to the improvement of the landscape and cultivated land the most. Technical assistance provided by means of mechanization and transport (maintenance of field roads, local roads, etc.) and employment of the inhabitants of the municipality (including the social aspect, e.g., employment of socially disadvantaged groups) were less beneficial for the municipality. The involvement of agricultural enterprises in the development of rural tourism and agri-tourism had only very limited importance. There was no dependence between activities of agri-holding in ecological area and the quality of the relationship with the municipality from the point of view of the representatives of the agri-holding. On the other hand, the activities were important from the point of view of the municipalities. The relation



Source: own elaboration

Figure 3: Cooperation of the agri-holding in ecological area (To be continued).



Source: own elaboration

Figure 3: Cooperation of the agri-holding in ecological area (Continuation).

between the two subjects depended on whether the agri-holding contributed to the improvement of the landscape condition or of cultivated land (p-value = 0.000, V = 32.8 %). Also, the technical assistance to the municipality by mechanization and transport means was significant (p-value 0.000, V = 34.9). The strongest statistically significant dependence was between the relation of the municipality and agri-holding and the employing the inhabitants of the municipality (p-value = 0.000, V = 37.1%).

### Strategic area

Over half of agri-holdings (52.6%) cooperated with the municipality in at least one area. It was the most often on preparation and implementation of joint projects on agricultural or municipal land. One third of agri-holdings helped to form the joint territorial development strategy for the territory of the municipality and over one fourth of agricultural land representatives said that they helped the municipality to draw up common conceptual documents.

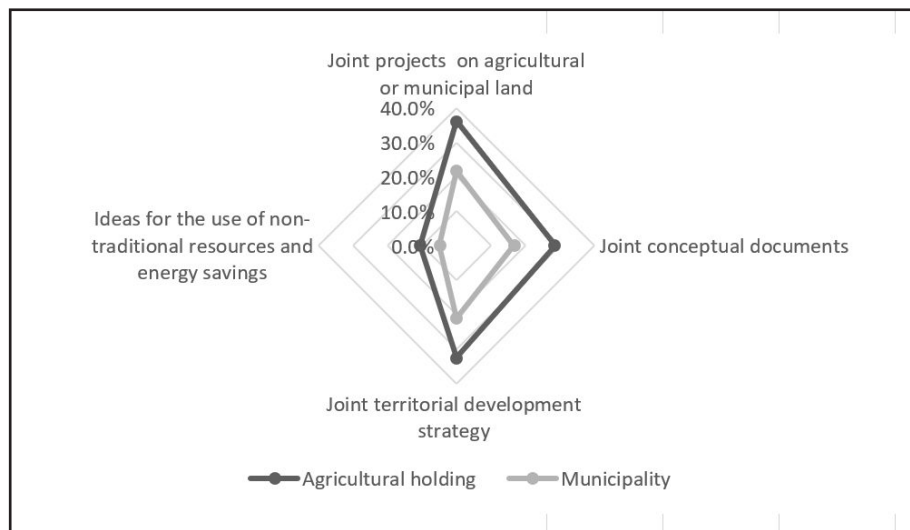
The scope of cooperation was lower from the point of view of the municipalities. Less than one third of municipalities cooperated with agri-holdings in at least one strategic area. It was the most often on joint projects on agricultural or municipal land and forming joint territorial development strategy for the municipality's territory. The assessment is displayed at Figure 4.

There was no dependence found between the relationship and cooperation in strategic area from the point of view of the representatives of agri-holdings, but only from the standpoint of the municipalities. The dependence

was significant in the case of preparation and implementation of joint projects (p-value = 0.000, V = 39.7%), then in case of cooperation on joint conceptual documents (p-value = 0.000, V = 41.2%) and cooperation on joint territorial development strategy for the municipality's territory (p-value = 0.000, V = 37.7%).

The positive perception of the relation between agricultural holdings and the municipalities prevails on both sides, despite that the assessment differs. From the point of view of agricultural holdings, the relation is seen as very positive in less cases than from the point of view of the municipalities. Positive relation and cooperation between those two subjects can contribute to the creation of the social capital in the municipalities as one of the components of the Putnam's (1993) social capital are social networks. The central thesis is that if a region has a well-functioning economic system and a high level of political integration, these are the result of the region's successful accumulation of social capital. „The quality of the civil society “predestined” to a large extent the future economic and political development of the region.” (Siisiäinen, 2000). Hence, when there are voluntary activities done by the agri-holding and appreciated by the municipalities in the rural areas, this can enhance social capital creation.

Regarding the motivation of agricultural holdings for maintaining good relations with the municipalities, there can be some intangible factors that support which support this endeavor. Almost 60% of the respondents from agri-holdings lived in the municipalities where the agricultural



Source: own elaboration

Figure 4: Cooperation of the agri-holding in strategic area.

activity took place. When the representatives of the firms are local, they motivation to maintain good relations with inhabitants and representatives of the municipalities is higher. Besides, the management of the agri-holdings also intensively (65.4% cases) or at least occasionally (34.6%) observes the activities in the municipality. They mostly meet informally or formally with the mayors at face-to-face discussions but also over half of them read local newspapers. Those intensive and current contact also support the good relations.

According to the expectations mostly the representative of the municipalities knew about the activities of the agricultural holdings less than the representatives of agricultural holdings. The representatives of the municipalities must observe more stakeholders in their area. Nevertheless, better promotion of their activities shall be recommended to agri-holdings. The necessity of promotion was highlighted also by Gagalyuk et al. (2021) when one interview farmer stated a case when they improved street lighting, but the effort was attributed to the mayor by the inhabitants. He stated that “We have to inform and reach out to local people to make them understand who is doing all of these good things for them.” (Gagalyuk et al., 2021).

Regarding the participation of the agricultural holdings on social life in the municipality (with exception of sponsoring of the fire brigade that was frequently or regularly done by 73.7% of agri-holdings) the activities do not influence the relation with the municipality.

The perception of the agricultural holdings by the municipality depended of whether the company participates on cultural events, annual events, harvest festivals and balls. Those events enable the agricultural holding to promote their name and “brand” to large audience. Organization of those events sometimes require close cooperation with the municipalities (or other stakeholders in the locality), which could enhance the relationship. Also, material donations of the products on the events helps the company to become more visible.

Besides, the relation also depended on whether the agricultural holdings accepted students on internships. Another important determinant was the sponsorship of fire brigade, sport clubs and events and other local clubs. This type of activities promotes the company to certain circle of people but is still large enough to bring the benefit of visibility to agri-holding and important to help to create the relation with the municipality.

Surprisingly according to the agri-holdings’ representatives’ answers, the relation with the municipality did not depend on any public-benefit activities that were realized by the company. On the other hand, the relation between municipality and agricultural holding depended on whether it maintain the public spaces, restore and plant the greenery in the village and its surroundings, and take care of trees and greenery. Besides, winter maintenance of local roads and rental of equipment to ensure the collection and subsequent removal of iron were also important determinants of the relation with the municipality. Finally,

the relation depended on if the agricultural holding provided ecological education and training of children and youth.

In case of benefit of the agricultural holding for the municipality, there was no statistical dependence from the point of view of the agricultural holdings. On the other hand, the relation with agricultural holding depended on whether it contributed to the improvement of the landscape condition or of cultivated land, it provided technical assistance to the municipality by mechanization and transport means or it employed the inhabitants of the municipality.

The relation of the agri-holding did not depend on the cooperation with the municipality in the strategic area, but the situation was opposite from the point of view of municipalities. The low level of cooperation between agri-holdings and municipalities should be improved in the future as there is an important impact of spatial planning decision on agriculture which was confirmed by the study of Wachter and Wytrzens (2022) because “spatial planning plays a substantial role in securing agricultural production requirements”.

Because the relations were good, we looked closely on the negative cases as they can pointed out on certain problems. Seven agri-holdings did not have good relations with the representatives of the municipalities. Two mentioned the reason that the municipality does not invest into the local roads and that locals did not like the company because of the smell, so the relations were not good. Six municipalities had problems with the agricultural holding especially because they did not comply with agrotechnical principles and deadlines. One municipality stated that the soil flooding occurred. Hence, the relation towards environment is important and predetermines the relation towards municipality's inhabitants in some cases.

## **Conclusion**

Corporate social responsibility represents a broad concept where the firms is voluntarily involved in a series of commitments towards the society and the environment beyond legal and regulatory requirements. The aim of those commitments is to strengthen the relation with the stakeholders. Therefore, it could have been expected that activities that were done in favor for the inhabitants of the municipalities would have brought better relation between representatives of the agri-holdings and the municipalities. We found out that the positive perception of the relation prevailed

on both sides despite that the point of view of the representatives of agri-holdings and municipalities on their relation was statistically significantly different. This good cooperation can help to the creation of social capital in the sense of the Putnam's definition and hence to the development of the locality.

The agri-holdings participated on many events and were active in many areas of the social life in the municipality, but the visibility of those activities was insufficient. The representatives of the municipalities answered less often that agricultural holdings are realizing certain activities than the representatives of the firm themselves. Promotion could help the agricultural holdings to enhance their good name in and lead to the prosperity of the firm because the CSR activities should pay off.

The quality of the relation was statistically significantly dependent on the whether the agricultural holdings cooperated with the municipality mainly from the point of view of the public sector representatives. Almost all activities done by the agri-holdings were statistically significant determinant. From the standpoint of the representatives of agri-holdings, the number of supported activities was not statistically significant determinant of the quality of relation. The only exception was the support of local fire brigade.

From the negative examples can be deducted that bad land management practices and insufficient care of the environment caused negative relations between municipalities and agri-holdings. Environmental responsibility is hence necessary to enhance the relationship towards the municipalities and its inhabitants.

To maintain good relationship with the municipalities, agricultural holdings have to comply with the legal framework on environmental protection as the basic step. Then there is the superstructure in the form of support for social life and the practical running of the village. It can be recommended to maintain those activities and enhance their visibility, because social responsibility of agri-holdings is an important feature for the reputation of the holdings. From the point of view of the municipalities, participation of agricultural firms on public life can help to enhance the quality of life in rural areas. Therefore, it can be recommended to maintain good relationship with the representatives of agri-holdings, to monitor

and observe their activities and also publicly appreciate their effort.

Exemplary cooperation between municipality and agricultural holding shall be also appreciated publicly by the authorities to highlight the good

practices. In this area, the existence of the Orange ribbon award for cooperation between agricultural firm and the municipality managed by the Ministry of Agriculture of the Czech Republic is especially important.

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## Appendix

Characteristics of agricultural holdings		
Number of employees	Minimum	4
	Median	40
	Average	47.9
	Maximum	350
Agricultural land	Minimum	261.4 ha
	Median	1338.6 ha
	Average	1565.0 ha
	Maximum	7864.9 ha
Legal form	Joint-stock company	42.90%
	Limited liability company	19.50%
	Cooperative	37.60%
Characteristics of the representatives of agricultural holdings		
Respondent's sex	Male	82.00%
	Female	18.00%
Respondent's age	Average	50.8 years
	21-40	21.10%
	41-60	63.90%
	61-80	15.00%
Respondent's education	High school, graduated	33.80%
	University	66.20%
Respondent's position	Director / Chairman / Chairman of the Board	60.90%
	Managing director	6.80%
	Deputy chairman	3.80%
	Economist	19.50%
	Agronomist	3.00%
	Others	6.00%
Characteristics of the representatives of municipalities		
Respondent's sex	Male	69.20%
	Female	30.80%
Respondent's age	Average	52.80%
	21-40	6.70%
	41-60	75.00%
	61-80	18.30%
Respondent's education	High school, non-graduated	2.50%
	High school, graduated	64.20%
	University	33.30%
Respondent's position	Mayor	85.80%
	Deputy mayor	6.70%
	Others	7.50%

Source: own elaboration

Table 1A: Statistical description of the sample.