Environmental, Social, and Governance or ESG Scores: A case study for American Plains Co-op

by

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ABSTRACT

Environmental, Social, and Governance, or ESG, scores are a new way for potential investors to judge the sustainability of a company. The main source of investor information in the past were limited to financial statements and other reported information such as operating goals and results, and management compensation. The traditional information, even if it is positive, does not always equal a safe or sustainable investment. As publicly traded companies begin exploring new ways to improve their own ESG score and prove their sustainability, it will begin affecting those companies throughout their supply chain. This study will research ESG scores and their presence in the agricultural industry to determine the importance of ESG scores at the local grain cooperative level, specifically to the American Plains Cooperative, a farmer owned cooperative in central Kansas and Northern Oklahoma.

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CHAPTER I: INTRODUCTION

In the past investors and lenders focused on an organization's financial statements. A strong financial position was enough to encourage them that a company was prospering. As times change however, there is a new report that lenders and stakeholders are focusing on. As we move forward in the business world, lenders and investors want to know that the organization that they are investing in, is going to be sustainable. Sustainability refers to the ability to meet the needs of the present generation without compromising the ability of future generations to meet their own needs. The best way for a company to show that they are sustainable is with a strong Environmental, Social, and Governance (ESG) score. An ESG score will show how well an organization is operating to stay profitable along with being mindful of other items such as governance policies, sustainability, employee engagement, and the climate. A lot of businesses are already doing what is necessary to have a strong ESG score; however, they are doing themselves a disservice by not reporting on it.

The objective of this thesis is to show the importance of focusing on an ESG score, specifically at the local co-operative level. Being farmer owned, it is the co-operative's responsibility to ensure that we can continue to serve the farmer for years to come.

The thesis focuses on the anatomy of an ESG score as well as why the score is important. Interviews of industry leaders and reviewing the literature provide useful examples of businesses in the agricultural industry who already are focusing on ESG scores. Finally, the thesis concludes with applying ESG information to the American

Plains Co-op to identify what the American Plains Co-op is already doing and what the co-op can improve on as it moves forward.

CHAPTER II: WHAT IS AN ESG SCORE

An ESG score is a metric used to evaluate the environmental, social, and governance practices of a company or organization. ESG stands for Environmental, Social, and Governance, and the score is based on the company's performance in these areas.

(Rapier 2021) found that companies with high ESG scores experienced lower costs of capital, lower equity costs, and lower debt costs compared to companies with poor ESG scores. Better ESG scores translate to about a 10% lower cost of capital. This correlates to lower regulatory, environmental, and litigation risks associated with high ESG-scoring companies.

Unfortunately, there is not a public or standard computation for firms to figure their own ESG score. Currently the only way to acquire your firms score is to hire an independent broker to do a study of your firm and compare it to that of other firms in your industry. Typically, ESG scores range from 0-100 with 0-50 being considered poor, 50-60 average, 60-70 good, and 70-100 being an excellent score.

2.1 Environmental

The environmental portion of an ESG score focuses on exactly that,the environment. Specifically, it reflects what the company is doing to help the environment. Things like current carbon emissions and what you are doing to reduce your carbon footprint are the main focus. Other things such as water and waste management; are you recycling and limiting your water usage. In agriculture, sustainable farming practices are a focus, are you limiting the carbon released into the atmosphere by practicing more sustainable farming methods such as no till and limited nitrogen applications. (Albeck-Ripka n.d.)

2.2 Social

Social in an ESG score is a focus of how you treat your employees and how you can maintain your workforce with employee retention.

In a post pandemic world where the workforce has been depleted, it is easy to argue that the social part of an ESG score has become the most important. Health and safety are the main drivers for this specific portion of an ESG score. What is the company doing to help maintain the health and safety of their employees? For example, a company could offer safety courses to the employees as well as offering gym memberships or counseling to maintain physical and mental health. Through things like offering better employee benefits, such as more vacation time or better compensation than the competitor, will boost your social score.

Offering opportunities to employees that they will not get at a different firm also boost your score. Examples include offering benefits like further education compensation or leadership courses so that employees can advance their career. (McKinsey 2023) states that internal promotions builds a positive culture.

2.3 Governance

Governance focuses on your firm's functionality and image. Diversity in your work force and board room show opportunity due to the ability to gather thoughts and ideas from different perspectives.

Cybersecurity is a key point of governance, in today's world of technology, a hacker from thousands of miles away can cripple a company with a few keystrokes. Possessiong proper cyber security and training your employees on cybersecurity in order to prevent that from happening shows evidence of sustainability.

Supply chain management, once again in a post pandemic world where supply chains have not yet recovered, if your company can establish a way to receive products and continue to push products down the line when the competition cannot you will prove to be more sustainable (McKinsey 2023).

CHAPTER III: WHY ARE ESG SCORES IMPORTANT

An ESG score is an indicator, based on a comparative analysis, of a company's ability to move forward and continue to be successful. An ESG score it is not a matter of whether a firm is doing this or not; it is how the firm compares to the other firms in their industry in that particular field.

Given that ESG is a relative score, smaller firms have more potential to have a high score as a larger firm. In the past a strong balance sheet was convincing to investors, but when comparing two firms in the same industry that are very different sizes, it is not safe to say that the bigger firm, which has more money on their books, is performing better than the smaller firm because the value is greater. The smaller firm may be a much more sustainable company, and, therefore, a safer investment for the financial insititution or investor.

ESG scores measure sustainability in the appropriate industry. Focusing on improving your firm's ESG score can easily result in a firm becoming more profitable as well. For example, assume a firm is focused on improving their carbon footprint. To do this, they are going to use less gasoline and diesel fuel while maintaining the same level of production. One way to do this would be to cut down on unnecessary trips, invest in more fuel efficient vehicles when possible.

Another example is a firm will begin to look at ways to cut down on the amount of electricity used. At a grain cooperative, this may mean making an elevator location seasonal instead of running heaters and lights year round when there is no grain in the elevator.

If a firm begins to focus on their carbon footprint, they will focus on water usage and waste management. They may notice that they are using more water than what they should be. As a result, they may find faucet leaks or other ways that water is being wasted and in an attempt to lessen their carbon footprint they cut back on water usage.

Gas, diesel, electricicity, and water are significant expenses on a profit and loss statement for most firms; by focusing on their environmental footprint and cutting back on these things to improve their ESG score, they also may cut back their expenses. Thus, profitability could be increased by seeking out environmental efficiencies.

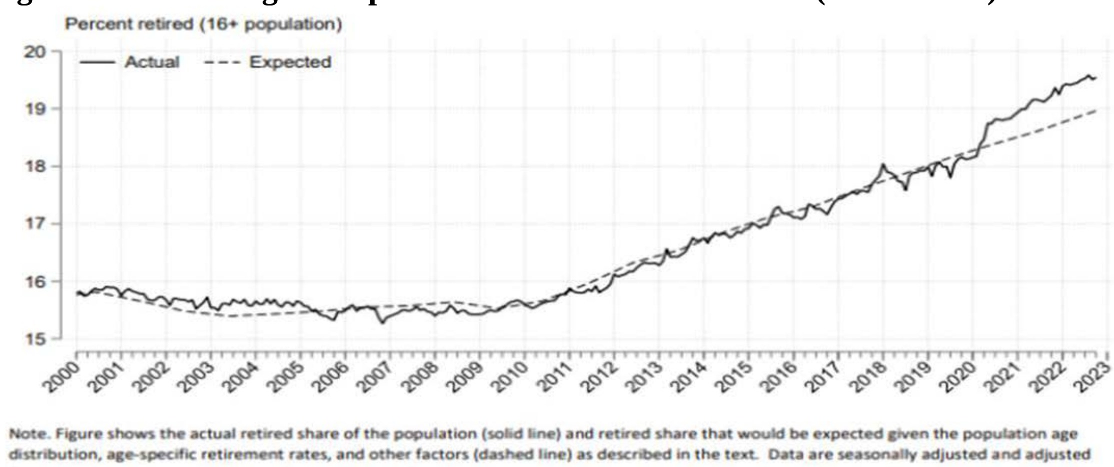
By working to improve a firm's social score, the firm is going to begin focusing on ways to retain employees. "Globally, employers with the highest ESG scores also perform 14 percent higher in employee satisfaction and are 25 percent more attractive to prospective talent than the average" (Fasih 2022). In return, engaged employees strengthen a company's talent pipeline for their long-term success. To do so they may begin by asking their employees what they want, what would make them happier, and what they like about their current job or position. They then can take those ideas and build on them to make the firm a better place to work, and, as a result, it will be more appealing to newer and younger talent.

Not only will they begin to lead their industry in recruiting new talent but they will also build and promote the company's existing talent. This can result in an improved culture for their current employees, and a better culture and happier employees will then result in better efficiency.

Doing so will begin to build a culture that your employees take pride in. They will have pride in the work that they do which will result in better products, completed more efficiently. The gained efficiency that results from the firm focusing on improving their appeal to current and future employees should result in better profits.

Figure 3.1: US Labor Force Participation by Age Group (Nelson 2023)

Figure 3.2: Percentage of Population Not in The Labor Force (Nelson 2023)



Another reason that firms should focus on their social score and being more appealing to current and potential employees is that since the COVID-19 Pandemic the work force is significantly less. In Figure 3.1, (created by Ted Nelson, commodity broker at StoneX), we can see that the labor force in the 25-34 and the 45-54 age groups has returned to their pre-pandemic numbers, however the labor force in the 35-44 age group is down roughly 1% while the 55 years plus labor force is down nearly 2% since the start of the pandemic in 2019. There are approximately 42 million Americans that fall into the 35-44 age group and 97 million Americans that fall into the 55+ age group (Kaiser Family Foundation 2021). As a result of these Americans not returning to the labor force, our labor force has decreased by roughly 2.36 million people.

Figure 3.2 shows that the percentage of the population that is sixteen years and older that are not in the labor force (including retirees) roughly half a percent higher than the expected trend line. This shows us that young people are entering the workforce at a slower rate than people are leaving.

Given these changes in labor force participation, businesses are having a difficult time replacing employees that either quit or retire. It also means that there are more opportunities for workers in the U.S. than ever before. Because of this, businesses should focus on retaining employees and give them the tools and opportunities to succeed in their career or they will find a different career. If businesses do not, then there is a chance that employees will seek out a new job. Focusing on the social aspect of your firm's ESG score will help you to retain employees which will ultimately give you an advantage over the competition.

Governance pertains to how your firm is managed and controlled. Implementing race and gender diversity in your boardroom will benefit the firm's governance.

The world is an ever changing place and the business world is not immune to that, having a variety of backgrounds and ideas in the board room can allow a firm to continue to grow with it’s surroundings. “There are several benefits to having a diverse board. It provides a broader viewpoint, makes more sound judgments, encourages innovation, is more nimble, and better reflects the company's investors, consumers, and community. A diversified board is beneficial to the company's bottom line” (Campbell 2022). If a firm focuses on it’s governance and impliments diversity in order to better improve it’s ESG score by bringing in different age groups, social backgrounds, and education areas, the ideas become much broader and the company can capitalize on this diversity and prosper.

Cybersecurity is another key point of governance. Firms will likely experience a cyber attack or even something as simple as an employee not recognizing a false email. A firm can improve their ESG score by implementing cybersecurity teams and cybersecurity training for their employees and as a result may avoid a multi-million dollar hack.

CHAPTER IV: ESG SCORES BEING REPORTED IN AGRICULTURE

Although local cooperatives are not currently required to report ESG scores, ESG reporting does occur in the agricultural industry. Land O'Lakes, one of the largest farmer owned cooperatives in the country sends an annual ESG report to it's members every year. CoBank is a cooperative bank, or a bank owned by it's customers, that provides financial lending and services to agriculture, rural power, water and communications cooperatives across all 50 states. In March of 2023 they released their first sustainability report, reporting on the year 2022.

Investor's Business Daily (IBD) reports an annual list of the best ESG related companies to invest in based on their ESG score and Return on Equity ratio. To build the 2022 100 Best ESG Companies list, IBD started with each company's environmental, social and governance (ESG) sustainability score created by Dow Jones Newswires, an IBD affiliate. To create the scores, the Dow Jones combines publicly available company data with an analysis of media coverage on each company. Thousands of English-language sources available via Factiva, Dow Jones' media aggregation and business intelligence platform, were analyzed to build these scores (Doler 2022). In 2022, five agricultural companies made the top 100 list. These five include Bunge(18), Darling Ingredients(53), John Deere(60), Cal-Maine Foods(74), and Archer Daniels Midland(75).

Land O'Lakes, CoBank, Bunge, Darling Ingredients, John Deere, and ADM would be considered end users or suppliers of the co-op. Meaning that local cooperatives either buy product from them, sell product to them, or both. This is important because carbon emissions and the environment is a large part of the focus of companies when they start to discuss ESG scores. Therefore, these companies could require their business partners up-and-down the supply chain to report an ESG score.

When tracking your carbon output, there are 3 different scopes. Scopes 1 and 2 are when a company focuses on their direct carbon emissions. Scope 3 includes the carbon emissions all the way down the supply-chain. This means that if a company in the supply chain begins to focus on their Scope 3 carbon emissions, they can ask their supply chain partners to meet certain environmental requirements based on our position in their supply-chain.

4.1 Land O'Lakes

Land O'Lakes is a farmer and retailer owned co-operative based out of Arden Hills, Minnesota. in 2021, they had $16 billion in sales and employed over 9,000 employees across 300 different locations (Land O'Lakes Inc. 2022).

Land O'Lakes has begun focusing on their ESG score and reporting it to the member owners; each year they send out an annual ESG report. In the 2021 report, they emphasized their governance role and highlighted their goals and progress towards improving their ESG score. In mid 2020, Land O'Lakes established a sustainability council which consist of twelve employees in a leadership position. They meet monthly to ensure that the different departments of the company are all working together to meet their sustainability goals. Some of their goals included 3 million pounds of product donations by 2030, increase water efficiency in operations by 15% by 2030, Ensure full and effective participation and equal opportunities for women and minorities within the company by 2030, a 50% reduction in waste from operations by 2030, and 100% renewable electricity in operations by 2030. Land O'Lakes also has started on farm programs to assist farmers in reducing their carbon emissions which benefits their Scope 3 level carbon emissions.

Another program they have started is Truterra, which allows farmers to work through their retailers to optimize their carbon credits and get paid for their farming practices.

Land O’Lakes performed well in the social area of their ESG score because of their efforts to provide a safe work environment for the employees as well as reporting how safe they have been. They reported their “Total Recordable Injury Rate” which is a reported number valuing the total number of work related accidents per 200,000 working hours as 2.7 (Land O'Lakes Inc. 2022). Land O’Lakes did not include an actual ESG.

4.2 Bunge

Bunge is a milling and food processing company based out of St. Louis, Missouri. Over the span of their 350+ facilities in over 40 countries, they buy grain and commodities, then mill and crush those products to produce different oils and feed ingredients. Bunge is a supplier and end user of the American Plains Co-op (APC); our co-op sells different commodities into Bunge’s crush facilities and mills. APC also buys feed ingredients from Bunge to supply our feed mill.

In Bunge’s 2022 sustainability report, they highlighted what they are doing and the changes they are making to benefit the environment. Their main focuses are reducing deforestation in South America and decreasing carbon emissions across the supply chain. Bunge states that they have already reduced their Scope 3 carbon emissions by 2.2% with a goal of decreasing it by another 12% by the year 2030. This affects the co-op level because somewhere on the supply chain, whether the co-op is a consumer or supplier for Bunge, that co-op affects Bunge’s Scope 3 level of carbon emissions.

4.3 Darling Ingredients

Darling Ingredients (NYSE: DAR) is a publicly traded company that turns edible by-products and food waste into valuable products such as renewable diesel, fertilizer, and pet food ingredients (Darling Ingredients 2022).

In their ESG report, Darling states that they have a responsibility to future generations to combat climate change. They want to be a leading part in transitioning the world to a low-carbon future. In 2021 they set a goal of becoming a net zero emissions business by the year 2050.

As a result of their goal, a main focus of Darling Ingredients is carbon emissions. They are currently focusing on their own emissions and how to reduce their carbon output, they haven't started reducing their Scope 3 emissions, but they have started to measure them.

4.4 John Deere

John Deere is an agricultural based company that also spans into the construction and home lawn and garden industry. Deere completed a formal sustainability materiality assessment in 2021. The company utilized that assessment in numerous ways this year. "Our highest-priority topics served as the focus areas for the Leap Ambitions, released in February 2022" (John Deere 2022).

John Deere is working closely with farmers to bring advanced spraying technology to their farm that will only spray the exact amount needed. This is an attempt to reduce the amount of chemicals and fertilizers used in their production. By doing so they are improving their environmental score, as well as improving their Scope 3 carbon emissions by helping to improve the carbon emissions of those on the consumer end of their supply chain.

4.5 Cal-Maine Foods

Cal-Maine Foods is the largest producer of eggs in the United States. Their flock of chickens consist of over 53 million birds. They are integrated to the point of hatching chickens and breeding them all the way through their life and then also distributing the birds and eggs.

Cal-Maine is in the early stages of their sustainability focus. They are attempting to minimize their greenhouse gasses emissions by doing the little things like switching their light sources to LED bulbs and changing their water heaters to tankless units. They are also trying to minimize their land usage while still remaining to grow their operations.

Cal-Maine has made it a focus to source their feed ingredients from United States farmers in an attempt to do their part of reducing deforestation in foreign countries.

4.6 Archer Daniels Midland

“At ADM, we unlock the power of nature to enrich the quality of life. We’re a premier global human and animal nutrition company, delivering solutions today with an eye to the future” (Archer Daniels Midland 2021).

ADM is both a supplier and a consumer of the American Plains Co-op, and as a result we fall into their Scope 3 carbon emissions. In their sustainability report they state that their goal is to reduce Scope 1 and 2 GHG emissions by 25% by the year 2035. They also set a goal of reducing Scope 3 GHG emissions by 25% by 2035.

Another goal of ADM’s that affects the American Plains Co-op is their traceability goals. They have made it a goal to track production of 100% of the grain they source in order to produce their products. This means that they want to know where the grain was grown and what practices were used to grow it. This not only affects the American Plains Co-op, but also affects our relationship with and the practices of our producers.

4.7 CoBank

"CoBank will center our approach to sustainability around mission service to agriculture, rural infrastructure and the needs of our customers. We will provide capital and other forms of support to customers as they chart their own journey toward a more sustainable future. CoBank will also continue to adopt practices internally as a socially responsible cooperative" (CoBank 2023).

In 2022, CoBank not only figured their Scope 1 and 2 emissions and made the efforts to reduce their emissions, they also partnered with Truterra to purchase carbon offsets from producers to offset their carbon emissions.

On top of calculating and offsetting their Scope 1 and 2 emissions, they also began calculating their Scope 3 emissions.

CHAPTER V: CONS OF FOCUSING ON ESG SCORES

No matter how great something looks or sounds, there seems to always be at least one thing wrong. ESG scores are no different, focusing on ESG scores can cause problems for a firm. Whether it be financial struggles or personnel shortage, ESG focus can be overdone and even detrimental to a company.

For starters, it cost money to get started and maintain. MSCI is a firm that performs ESG research for your firm and then gives you an ESG rating. According to their brochure, their ESG research services will cost the firm between $5,000 to $2,000,000 per year, depending on the specific research conducted (MSCI ESG Research LLC 2022).

ESG scores take a lot of time to establish and to see the benefits (Cockrum 2023). A company needs to have a solid foundation to build on before they can tackle the environmental part of ESG scores and working towards reducing their carbon footprint. A struggling company would first want to focus on the cheaper aspects such as building a successful culture.

Maintaining your ESG score is going to take a lot of effort and man power. Focusing on ESG is not a one time thing, the world is constantly changing. Larger companies that are already focusing on ESG scores have entire ESG departments. In order to be successful in maintaining a solid ESG score, it is going to take regular attention and regular action plans to continue moving forward and building your portfolio (Cockrum 2023).

CHAPTER VI: WHY CO-OPS SHOULD FOCUS ON ESG

As a co-operative it is our duty to our patrons to do everything we can to ensure that we are still here to serve them tomorrow and continue to help them be profitable in their business. ESG scores apply a measurable number to the sustainability plan of the cooperative. By focusing on our ESG score, we can show the producer what we are doing to make ourselves better, as well as better our services to them.

Focusing on your ESG score and taking the appropriate steps to improve it, even if ESG focus in the industry were to fade away, could also help improve our overall business. Typically, a successful business already has good governance and social practices.

6.1 Financing

After speaking with Steve Wittbecker, Chief Sustainability Officer with CoBank, I was able to gather a better understanding of how the financing world is treating ESG scores.

Steve reported that while commercial banks are focusing on ESG reporting, they are not directly using the report in order to make financing decisions. He stated that like commercial banks, CoBank is taking an indirect route towards addressing ESG scores. Rather than looking at a firm’s ESG report and having guidelines based on the report to make finance decisions, they are looking at the report and taking the information offered as a way to judge the company and make decisions on what kind of company they are and their ability to be sustainable.

He stated from a banking stand point, they have found that ESG scores and credit scores seem to correlate. Meaning that they have found that companies with a higher ESG score or a higher ESG focus, tend to have a higher credit score which can result in better finance pricing.

When asked what CoBank sees as the most important aspect of an ESG score for a cooperative to focus on, whether it be environment, social, or governance, Steve stated that governance should be the main focus of a co-op. The reasoning for this is that cooperatives have an advantage in that field based solely on the cooperative mindset. Cooperatives are based on the idea of service to the community and being the ag partner of the future to their farmer owners. This all falls into the governance portion of an ESG score. If a co-op is already practicing their original beliefs, then they will already be focusing on the importance of governance.

Steve does believe that co-ops, as well as all businesses, should begin to focus on their ESG rating because although it is a fairly new measure for a company, the social and governance focus is not only a way for the company to report on but also to improve their resilience and sustainability.

Putting focus and effort into your company's governance structure will directly affect how you are able to bounce back from an issue, and your score will show how well you can do compared to the others in your industry.

6.2 Profitability

If the cooperative begins to focus on their ESG score they can improve their efficiency at the sametime and as a result increase profitability.

By focusing on the environmental portion of ESG, they can cut out practices and procedures that are wasting fuels and electricity. By doing so they will not only improve their environmental score and benefit the environment, but also cut back on utility cost.

Utility cost can be a huge expense to a cooperatives financial. In 2022, utilities accounted for 15% of total operating expenses at The American Plains Co-op. Between fuel for trucks and electricity to operate legs and fans in an elevator, every penny can count at the end of the year. If a co-op focused on how they can reduce their carbon footprint and be better for the environment, and at the same time lowered their cost of operation while not sacrificing profit, then not only are they benefitting their ESG score but also making themselves and their producers more money.

6.3 Benefit to Employees

In a world where everyone is struggling to maintain a work force, it is important to be competitive when hiring and keeping an employee, especially an employee that can be important to your company's future success.

When first beginning to focus on your own ESG score, a firm would want to see what others in their industry are doing so that you can compare what you are already doing and what you can improve on. Companies often set their employee benefits package and then neglect updating it for years until they are way behind the industry and are forced to update it. By focusing on your ESG score and looking at what other firms are doing, you may find out that your current employees are under compensated. Once a firm realizes that and then can update their benefits package they not only can improve their employee morale, but they can also improve their recruiting strategy.

A company's success relies heavily on the skill set of it's employees. If morale is low and the talent of the employees you are hiring is low, the success of your company will likely suffer. With proper focus on ESG scores, specifically the social aspect, you can improve the talent of your employee pool and ultimately improve your efficiency. If you have the benefits and tools to recruit an employee that is capable of doing the job of two lesser talented employees, you not only can cut employee cost, but also improve your potential for future management by having the employees that can grow and improve your company.

Cooperatives already hold a slight advantage over private firms. By being a cooperative the firm has the opportunity to participate in the co-op retirement plan, which allows the cooperative to offer a pension plan to their employees. The pension plan, which is not found in all benefit packages, allows the co-op to offer their employees a paycheck in retirement.

Taking part in the co-op retirement plan allows the cooperative to offer a benefit that others do not, but that is not enough to ensure employee retention. Cooperatives can then use their ESG focus to discover more ways to set themselves apart from the competition and retain the employees that are going to allow them to continue serving their owners and producers.

CHAPTER VII: WHAT IS THE AMERICAN PLAINS CO-OP ALREADY DOING

The American Plains Co-op is a farmer owned co-operative based out of Great Bend, Kansas. Consisting of 16 grain locations as well as multiple agronomy sites and convenience stores, American Plains spans throughout central Kansas and into north central Oklahoma.

American Plains is progressively growing, doubling in size through mergers and elevator acquisitions over the last five years. The company's goal is to continue to grow financially, territorially, and progressively by offering the most up to date services to member owners. Through education and focusing on ESG scores, the American Plains Co-op strives to be a leading cooperative for years to come.

A key part of ESG scores is telling the story. A lot of firms are already doing the necessary things to report a good ESG score; they just are not telling the story. When beginning to focus on your company's ESG score, the first step should be to look at all the things that you are already doing, report on those, and then decide how to improve.

The American Plains Co-op already has focus on being a successful cooperative and having the ability to grow and succeed with their producers, and that mentality often correlates directly with the factors of a good ESG score. The American Plains Co-op is already doing several things that directly connect to ESG.

7.1 Board Room Composition

Cooperatives are owned by their members. The cooperative membership is made up of farmers that have financial stake in the cooperative, members build equity through doing business with the co-op. The membership then elects a board of directors from the membership. It is the board's responsibility to make significant financial decisions as wellas work with senior management to ensure board policy is carried throughout the company.

Cooperatives have an advantage in governance because of the make up of the board. The decision making process is ran directly through those that have the most financial stake. By having a board room that conist of member-owners the cooperative will operate in a manner that is most beneficial to those that it affects. If a cooperative were to fail, or go bankrupt, the members would lose their equity. It is important for the members to elect the best board of directors possible because that is who they are trusting to ensure that their co-op and equity is operating proficiently.

7.2 Branding

On October 1, 2022, the merger between Great Bend Co-op and Farmer's Co-op of Carmen became official, and with the merger came a rebranding.

A company's brand influences their reputation, a strong and clear brand can increase reputation and influence investors and stakeholders. The American Plains Co-op chose a broader name so that as the co-op grow, rebranding with every merger is not necessary. In fact, the American Plains logo reflects the brand via the following symbols:

- Plants - Growing with Purpose, Growing with You
- Lines - Rolling Expanse of the Plains
- Circle - All Encompassing, Providing a Complete Set of Solutions for our Producers
- Colors - Red, White, and Blue - Proudly Utilizing the Colors of the United States of America

7.3 Core Values

By promoting responsible behavior and decision-making, strong core values can help companies enhance their ESG performance and reduce risks associated with environmental, social, and governance issues. The American Plains Co-op has implemented a set of core values which all employees are expected to uphold not only at work but also in the community.

- Safe – Maintain A Safe Environment
- Enthusiasm – See Each Day as an Opportunity
- Integrity – Do the Right Thing
- Relationships – Building Connections in All We Do
- United – Working Together for a Common Goal
- Pride – Take Ownership of Ourselves, Our Co-op, and Our Communities

By implementing these core values, the American Plains Co-op sets the standard for its employees as well as for the company. All decisions should be made to reflect these core values. By displaying these core values in all offices and locations it is clear to American Plains' customers and producers where the comapny stands and what they can expect from the co-op.

7.4 Truterra and Carbon Credit Programs

The American Plains Co-op has partnered with Land O'Lakes and their Truterra program to give member-owners the opportunity to access the carbon credit market. Truterra acts as a broker for carbon credits and the American Plains Co-op's producers to assist them in their farming practices to produce the carbon credits.

By advising producers in their efforts to reduce tillage and increase their use of cover crops, they can produce more carbon credits and increase revenue for their farm. The producer is paid a flat rate per ton of carbon they pull from the atmosphere and then the credits are sold through Truterra to companies like Microsoft that are making their own attempts at reducing their carbon footprint to benefit the environment. There are currently 53 retailers in the United States and Canada offering the Truterra program to their producers. In both 2021 and 2022, the American Plains Co-op ranked in the top three retailers for money paid back to their producers for carbon credits through Truterra.

The American Plains' precision ag team is currently working with Land O'Lakes and Campbells Soup company to expand the potential to our producers with a limited acres program. Campbells, like Microsoft, is also working to reduce their carbon footprint and has shown interest in purchasing carbon credits. A new program would allows the co-op to offer a similar program to more producers so that American Plains can further its outreach into the carbon market.

7.5 Safety

Safety is a key aspect of the social side of an ESG score. For American Plains Co-op, safety is a core value. Also, the co-op has taken a more productive route rather than threatening route towards improving employee safety. Every employee is enrolled in a monthly safety course that educates that employee on a different risk that could be encountered while working for a grain elevator. Every employee, whether they are actually an elevator employee, secretary, agronomist, or sales rep, is educated on the different risk that can be encountered when working around grain or chemicals. If the employee completes their course and passes the test that is administered in the alotted time, they are then rewarded through our awardco program, which is a program intended to recognize employees by rewarding them with gift cards or other prizes of monetary value. Another award program is every month there is not workman's compensation claim, an employee is entered into a raffle drawing for prizes. These safety courses and award program demonstrate that safety is of the utmost importance to the American Plains Co-op.

7.6 Ag Relations

The Ag Relations Team at American Plains Co-op is the face of the co-op for on farm relations. Their duty is to build personable relations with the producer and show them their value to the company.

To accomplish this role, the Ag Relations Team provides a service to member-owners that focuses on making the producer more profitable rather than the company. Each Ag Relations Team member, will go on farm and meet with the producer to go over their cost of operations and then make a financial plan for that year regarding which chemicals and fertilizers are needed to keep their cost low but also boost their yield. In addition, each team member has market knowledge to assist them in forward contracting their grain in order to hit the breakeven and profit points in their operations.

The Ag Relations Team keeps American Plains Co-op connected to its cooperative roots of servicing the farmer and providing a service that they would not see from a commercialized company. This also builds relationships and trust with the producer and gives the opportunity for the company and the producer to grow and prosper together.

7.7 Employee Benefits

Having a strong employee base is important to any company. Being able to hire the best and keep the best employed is crucial to a company’s success. But not every company can pay the most. So as a smaller firm how do you compete? Culture in the work force and the benefits to the employees can help retain employees, even when they have a higher paying opportunity.

Being a cooperative, the American Plains Co-op is part of the co-op retirement plan, which provides a pension plan to cooperative employees. The plan rewards employees for multiple years of service, which provides an incentive to employees to continue working for a cooperative.

The co-op also offers 401K match, as well as life and health insurance match to its full time employees. This allows employees to care for themselves and their families at a lower cost than they may if they chose a different career path.

Employee benefit packages are sometimes set and then not revisited until they are out of date and the company is no longer competitive in their industry. The American Plains Co-op, board of directors makes it a point to periodically revisit the employee benefit plans to ensure the co-op is offering the best benefits.

The American Plains Co-op also started offering paid-volunteer time off. With volunteer time off, if an employee finds an event in the community that they are passionate about, they can take time away from work to donate their time and efforts to helping that organization and still be paid by the co-op. This allows employees to give back to the community and also shows the community that the co-op is here to help as well.

7.8 Employee Education and Advancement

Another way for companies to have an attractive culture for employees is to build and advance current employees through educational opportunities. Building a company's work force allows employees to give back to and advance the company. The American Plains Co-op has found a few ways to build and educate their employees to be future leaders of the co-op.

7.8.1 Education

The co-op offers an education benefit to any full time employee that is wanting to further their education. Education is important but not everyone has the means to afford a college degree. If an employee wants to further their education by obtaining a college degree, with the approval of their department manager and the CEO, in an agricultural or business field from an in state junior college or university, the co-op will pay 100% of the tuition while also paying for any travel that the employee may need to make in order to obtain their degree and paying them while they complete the courses. The employee must keep a 3.0 GPA and then agree to work for the company for 3 years post graduation if obtaining an associates or bachelors degree or 5 years post graduation if obtaining a masters degree.

This program is a great way for employees to better themselves with no expense of their own besides the time and the effort. It also allows the company to build a more well rounded employee base and to ensure that they are going to get the return of their employees post graduation.

7.8.2 Leadership Courses

The co-op sends it's employees to various leadership courses often put on by ProValue Insurance and CHS. The employees that the company feel have the potential to be a future leader will go to different meetings and classes on leadership. Doing so is a good way for the co-op to show an employee that they are being recognized or noticed by upper management, even ifthere is not an opening for promotion at the time. It also allows the co-op to lay the ground work with these employees of what is expected of them moving forward. If they want to be in a leadership role, they have to be willing to learn and show evidence that they can be a leader.

7.8.3 Networking

In the agricultural industry, building a network of connections is important. It is important to have relationships inside the industry, but outside of the company to discuss challenges or opportunities American Plains Co-op sends employees to attend meetings and events put on by leaders of the industry such as CHS, Land O'Lakes, StoneX, or Winfield, where employees and leaders from other co-ops and ag businesses will be attending. This not only allows the employees to get their name out in the industry, but allows them to build their own relationships and build ideas based off what others are doing that they can bring back to American plains to build on and help to improve the company as a whole.

7.9 Cybersecurity

Effective technology use is critical to the success of American Plains Co-op. As a co-op with a large footprint, there are hours of travel between locations. American plains cannot rely on face to face communication in order to be successful. Virtual calls and email communication is part of today's work. Having cybersecurity awareness and training is critical to protecting the cooperative.

The American Plains Co-op invest not only money, but time trying to ensure that cyberattacks cannot take down our company. The co-op has contracted an outside IT firm to monitor or digital activity and install cyber blockers and monitors on all servers. The IT firm also provides information and courses to all employees on the threats and consequences of cyber attacks. Test emails are sent out randomly to employees to not just catch the employees that could let in a potential threat, but to provide an opportunity to further educate those employees.

CHAPTER VIII: APPLYING ESG SCORES TO THE AMERICAN PLAINS CO-OP

Although the future of ESG scores importance is unclear, there are processes that the American Plains Co-op can start on now to be prepared for whatever the future may bring. While it is difficult to calculate an ESG score for a company, it is important for each company to be able to identify how their programs and business practices relate to an ESG score. Figure 8.1 summarizes current American Plains Co-op programs and business practices that contribute to an ESG score.

Figure 8.1: ESG Scores Applied

GOVERNANCE	ENVIRONMENTAL	SOCIAL
Board of farmer owners • Consist of elected farmer owners • Directors are held to a fiduciary standard • Work with senior management to ensure cooperatives long-term success **ASI's IT and cybersecurity team** • Monitor electronic threats • Educate employees on how to avoid scams **Core values** • Safe • Enthusiasm • Integrity • Relationships • United • Pride **Updated branding** • Broader name to promote inclusion • Reputation	**Truterra partnership** • Assist farmers in producing carbon credits • Allows producers to reach the carbon market **Precision Ag team** • Promotes sustainable farming practices	**Safety made simple** • Encourages employee safety • Educates emplyees on safety **Employee education program** • Builds educated and competent workforce **Leadership programs** • Encourages employee advancement **Volunteer time off** • Encourages community involvement **Ag Relations team** • Puts a face to co-op • Benefits customer involvement

What could American Plains Co-op be doing now that could benefit the company in the future should it be required to report an ESG score? Larger companies that are focusing on ESG scores have started departments and teams that's responsibility is to keep up with the firms ESG score and what the industry is requiring for them to have a good ESG score.

It would be hard to justify the American Plains Co-op hiring new employees just to focus on an ESG score, but American Plains could compile a committee of existing employees that could meet periodically and dedicate some time towards preparing the American Plains Co-op for the future of ESG scores.

The committee could consist of employees from a variety of departments in order to incorporate some diversity in the meeting room. Doing so would allow the aspects of the cooperative industry to be represented. The committee members would not only do their own research, but also talk with the supplier and end users that their department does business with in order to gain knowledge of what the industry is expecting of grain marketing and farm supply cooperatives.

By starting the conversation now, the American Plains Co-op will have an insight into what is going to be expected in the future. Doing so will help ensure the co-op is able to meet the needs of ESG reporting. It will give American Plains Co-op the opportunity to be ahead of competitors and give the potential to gain more business and profits.

CHAPTER IX: CONCLUSION OF THE AMERICAN PLAINS CO-OP

In conclusion, ESG scores are very likely to be the future of sustainability reporting. It will be important for local cooperatives like the American Plains Co-op to focus on ESG reporting. With end users beginning to focus on ESG scores, it will only be a matter of time before they are requiring or giving incentives to co-ops that are also focusing and reporting on ESG scores.

It is also important to focus on ESG scores due to the benefits that the co-op will achieve by doing so. It is the co-op's responsibility to be profitable and to continue to be a service for years to come. By focusing on ESG scores, American Plains Co-op can build profits and retain a talented and well rounded employee base that takes pride in serving the cooperative's farmer owners.

The American Plains Co-op is already performing the task required to have a good ESG score. However, telling the story of how American Plains Co-op already delivers on ESG areas is something provided in this research. Furthermore, continuing the ESG discussion will help American Plains Co-op position itself as a leader among cooperatives in ESG reporting.

ESG scores and their importance are not going to go away. By beginning to focus more on improving the company along with improving the ESG score, the American Plains Co-op can become one of the first co-ops to see the benefits and be ahead of the industry if ESG becomes a required reporting standard.

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