

**Association of Cooperative Educators
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Board of Directors
CHS Cooperatives**

“Walking the Tightrope: Serving Multiple Stakeholders”

Good morning.

Thank you very much for the kind introduction and especially for the invitation to speak with you today.

The topic assigned to me could not be more timely for CHS, a cooperative, which like many of yours, is experiencing major change in how it addresses the greater world. I use the term “greater world” to encompass all those beyond our cooperative member-owners.

In my time with you this morning, I want to cover three areas.

First, to talk a bit about the whole idea of stakeholders.

Second, to better acquaint you with CHS and look at changes and challenges we’re facing when it comes to defining both who our stakeholders are today and how we can address their needs.

And, finally, to look at the responsibilities those of us in this room have when it comes to sharing our cooperatives’ messages. That means for me as a director and each of you in your role as a co-op educator.

When I finish, I hope we can spend the remainder of our time together talking about these issues. Your viewpoints and ideas are very important to me and to everyone else in this room. We can all help our co-ops move ahead through lively discussion, when we don’t agree.

So let’s start with the basics. What IS a stakeholder?

This is a word whose use seems to have gained popularity in recent years. You hear lots of companies – including cooperatives – and organizations talk about their commitment to their stakeholders. But who are we really talking about?

The easiest thing might be to break that compound word into its two distinct parts – stake and holder.

If you're a farmer like I am, the first image that comes to mind is a slender, but sturdy, piece of wood. A stake is something you pound into the ground to either anchor another item – like a tent or the unruly family dog. A stake is also something we use to define an area. The boundaries of a piece of property, the outline for a fence.

From another perspective, to have a stake is to have a vested interest in something. When you have a stake, outcomes or events will matter to you, either positively or negatively.

The second part of that word “stakeholder” is a bit easier. When we hold something, generally it matters to us for some reason. We hold children because we want to protect them or show affection. We hold things because we want or need a connection.

So what are stakeholders? Essentially they are those who have a vested interest in us. In many ways, our stakeholders are those pieces of wood or metal pounded into the ground to anchor us or to help define who we are.

As cooperatives, clearly those who hold the greatest stake, the deepest interest, are our members and owners. They have deep investments in our cooperatives – financially and, often, emotionally. What we do and say is vitally important to them.

But as cooperative businesses and organizations, we are learning each day that our stakeholders are not limited to those with an ownership connection. There are many others with deep interest in what we do and say. There are many others who define and influence who we are as organizations. There are many more groups to whom we must recognize our need and responsibility to perform, communicate and, to the best of our ability, fulfill needs.

The stakeholder list is long. Employees, certainly. The bankers and others who provide us with vital financing. For many of us, it's the non-member customers who buy our products and services. It's our next door neighbors in the communities in which we operate. Increasingly, we add to this list elected officials, regulators and even special interest groups who have a stake in what we do and how we do it.

Essentially, we find our selves with the pressing need to serve many, many masters in an increasingly complex world. Each has the ability to influence our co-op's ultimate success – or failure. Each has a vested interest. But those interests can differ greatly or even conflict. Life as a co-op today is not a “one size fits all” proposition.

What's a cooperative leader – and educator – to do? Can we set reasonable expectations for our stakeholders as to what our co-op can and cannot do for them? Can we effectively communicate what our cooperative must do to remain in business? Can we focus on the needs of one or two stakeholders and ignore the rest? And if we do that, what is the prognosis for our cooperative's ability to succeed or even survive?

We'll get to these questions in a minute. For the next few minutes, I'd like to tell you about my cooperative, CHS, our direction and the challenges we're facing in meeting the needs of a growing list of stakeholders.

First, for those of you who aren't well acquainted with CHS, here's a short history lesson.

While our cooperative is firmly rooted in nearly 75 years of history, CHS itself just celebrated its fifth birthday. In many, many ways we are a new company, built from what was Cenex, an energy and crop inputs company, and Harvest States, which largely focused on grain marketing and processing.

When our members voted to create CHS, they endorsed a vision of established a producer-owned company that would add value for them by reaching from the farm field to the consumer's table.

Today, we're owned by about 1,200 local cooperatives and about 325,000 producers in more than two dozen states. We're involved – either on our own or with partners -- in businesses ranging from petroleum refineries to fertilizer manufacturing and distribution to grain marketing to soybean processing and flour milling. We make tortillas and we make salad dressing. We have some type of business operation in nearly all 50 states and we sell grain to 90 countries around the world.

Last year our sales were nearly \$8 billion. Our earnings were \$126.1 million. Of that we returned \$56.5 million in cash patronage and equity redemptions to our members.

In our first five years, we've made excellent strides in achieving our original vision and mission. We've strengthened the link from producer to consumer. We've gained operating efficiencies. We've been financially successful.

So surely everyone must be happy?

By and large, "yes."

But we've also had a few bumps along the road as we've tried to identify and balance the needs of a growing list of stakeholders.

As we approached our fifth birthday this year, the CHS board and management recognized that it was time to reassess as we move ahead.

The first task was making sure our vision and mission were still appropriate. The second was making sure that not only had we had identified ALL our stakeholders and their needs, but also were ensuring that these same stakeholders are well informed about the CHS of 2003 and beyond.

Today our CHS vision says we are "an integrated supply and grain-based foods company linking producers to consumers." On the surface, that appears identical to our original

vision, but there's one key difference. And that was driven by our changing stakeholders. Previously, we defined ourselves as an "ag" supply company. While much of our supply business is directed to farmers and ranchers, we recognize that we've grown and will continue to grow in serving other kinds of consumers – homeowners, governments, businesses – primarily with energy products like gasoline and propane.

Clearly, our stakeholder base has expanded.

Similarly, our mission now says that we exist to “add value by being profitable for our stakeholders.”

Again, a subtle change. Previously, we stated our focus as adding value for the producers and cooperatives that own us. That remains a very, very important priority. But today – and tomorrow – we know that there are many other stakeholders with that vested interest in our financial success.

Certainly the banks and other capital sources that finance us are stakeholders. The food customers we serve care that we're profitable enough to provide them with a dependable supply of a quality product, whether they are the end consumer buying a tortilla or a restaurant like Chili's that purchases salad dressing or cooking oil. Our employees care that we're profitable enough to maintain competitively paying jobs and benefits. Government regulators and communities surrounding our facilities care that we can afford to operate in an environmentally sound manner.

And we've added an important new stakeholder group. In the past two years, we've established a preferred stock program that allows the general public to purchase non-voting shares in CHS that have a guaranteed 8 percent annual return. The more than 7,000 people who own nearly \$90 million in CHS preferred stock certainly have a stake in CHS success.

To address the future the needs of our diverse and growing list of stakeholders, we knew it was important to understand their perceptions what CHS is today. At the beginning of 2003, we commissioned an extensive study. We talked to current members and employees. We talked to customers. We talked to the financial community. We asked them who they thought we were and what they believed we stood for.

And while we found many, many positives – including a strong belief in the integrity of this organization -- we also learned that we had some weaknesses as we moved ahead. When you consider all the changes we've been through in recent years, that's not surprising.

To highlight just a few, we found that many people associated CHS with only a portion of what we do. They knew about the “Cenex” energy side of our business and its very strong brand. Or they knew about the Harvest States grain operations. Some were still identifying the company by names that hadn't been used in decades.

We found frustrated employees who when asked who they worked for would say “CHS” and find that the person they were talking to hadn’t heard of our company – even though we’re number 163 on the Fortune 500. Clearly, that doesn’t help you when you’re trying to recruit a top quality workforce or build relationships in the national and international business community.

It was clear we needed to make a considerable investment in time and resources in clarifying our identity, image and direction with stakeholders across the board.

A multi-faceted effort is now underway to essentially create a CHS “brand.” By brand, I don’t mean what you might typically associate with a product like Coca Cola or Tide detergent. What I mean is that the image of CHS in the minds of our stakeholders is clear and consistent. That no matter how you relate to us – as customer, employee or owner – you have a clear understanding of what we stand for.

Although I don’t have time to go into all of the details, I’d be happy to respond to questions about what we’re doing later. To summarize briefly, we’re working every angle from inside out and from outside in to make sure all of our stakeholders have a consistent understanding of CHS. We’ll be doing some advertising, we’ll be implementing a strong and consistent identification program and we’ll be relying on lots of one-to-one communication.

Three years from now, we want the vast majority of employees to be able to identify CHS as their employer – which unfortunately is not the case now – and know that the products and services from their company are resources that enhance people’s lives. We also want a significant portion of our business partners to identify us as a diverse company that operates with integrity and adds value in many ways.

We are now in the final weeks of one very important component of this effort – changing the legal name of the company.

Officially, today we are Cenex Harvest States Cooperatives, the name in place at the time of our merger. A few years back, we began efforts to shorten our public identity to CHS. But we’ve been very frustrated to be continually referred to as Cenex or Harvest States alone, both solid product brands, but a disservice to the full scope of this organization. As our geographic scope has broadened, we’ve also found that a few states don’t allow the word “cooperative” as part of a legal business name.

For the past few weeks, our members have been voting on a proposal to change our name to simply CHS Inc. Mail ballots are coming in and we’ll tally them on August 5. Assuming passage, which appears likely at this time, we’ll then begin implementing the major image campaign I just outlined.

You might ask, as have some of our members, if removing the word “cooperatives” from our name signals that we no longer intend to be a co-op or don’t consider our cooperative nature to be important or even want to hide the fact that we’re a cooperative.

My answer – “absolutely not” to all of those points.

CHS is a producer-owned cooperative. That is our heritage and it remains vitally important tomorrow. Our cooperative ownership and governance structure remains unchanged, as does our commitment to our member-owners. The name change addresses the needs of other stakeholders whose understanding of or involvement in CHS – as an investor or customer – ultimately will benefit our member-owners in the years ahead.

Ultimately what it comes down to is that being a cooperative is not about a word or words, it’s about behavior and what you stand for.

Earlier in my remarks – and in the title of these comments – we talked about the conflicts that arise when the needs of one category of stakeholders appear to conflict with those of another.

At CHS, as our range of diverse stakeholders changes, we face this situation regularly.

One of the most recent examples involves our effort to expand the number of Cenex brand convenience stores that are part of our system, and provide opportunities to improve the efficiency of existing stores.

This is an critical part of our strategy to succeed in the refined fuels business. If you’re not familiar with the refined fuels business, there are a number of things going on that affect us. First, federal clean air requirement mean we have to invest nearly \$400 million in the two refineries we own, but the market won’t pay us a single cent more for a gallon of gas or diesel. Second, the agricultural diesel market we built our energy business on continues to shrink. Third, we have an extremely solid energy reputation in the Cenex brand. And fourth, we’re near saturation with the ability of our traditional member cooperative base to grow in the convenience store business.

Enter both numerous individual independent operators and one significant Midwest convenience store chain. They know the value of the Cenex brand and eagerly want to be our partners – to become stakeholders, if you will. The advantages are additional gallons from our member-owner refineries running through these c-stores and many new Cenex locations to grow the brand. Every new location improves recognition and marketability for existing facilities. Think of it. Don’t you stop at brands that are familiar because you know what they stand for and what you’ll get? The end result – more sales that ultimately mean more value returned on the investment so many have in CHS.

Seems like a simple win-win situation, doesn’t it?

The challenge as we introduced came from our very traditional stakeholders. A group of long-term local cooperative members who found it very difficult to allow “outsiders” to share “their” Cenex energy brand. To be candid, they want to remain the only stakeholders. We have faced tremendous challenge in educating them. To convince them

that we remain unwaveringly committed to a member-owned energy business and that growth with non-traditional customers is in their best interest.

Building understanding and support – or even acceptance – has not been easy. We’ve made excellent progress since this issue arose earlier this year, but I also recognize that there are still some member-stakeholders who will never accept this modest change in direction.

Another recent example involves our sale of preferred stock to the general public. Here we had very good acceptance and understanding from our members. Our challenge was educating prospective stock purchases – who would become economic stakeholders, but not voting member owners – about cooperative business structure and CHS as an organization. We also had to overcome the recent stigma attached by the recent economic failures of some co-ops, educating these prospective investors on our history of economic stability and integrity.

These examples lead me to my final point. How do we address the needs of a wide range of stakeholders who on the surface appear to have different objectives?

If you have more than one child, you can probably relate very well to this analogy. My wife, Sue, and I have a daughter and two sons. Like most families, every child, of course, wants to believe that they are the most important “stakeholder,” that their needs are the most important. The truth is that each of our young stakeholders has different needs and we do our best to meet them within the operation of our family – but we don’t always hit 100 percent for each child -- or each parent for that matter.

In families, and in our cooperatives, the simple answer goes back to mission and vision, our big picture. In a family, we all hope that vision and mission are raising happy, healthy, well-adjusted children who will be successful and unique adults.

And as a cooperative – or any business for that matter – we must attempt to do the same. We must have an unwavering view of who we are and what we must accomplish. In the development of those vision and mission statements, we must consider what end result will best meet the needs of our diverse stakeholders.

For CHS, as I said earlier, we believe we can best serve those to whom CHS matters by providing essential supplies, by linking producers to consumers and by being financially successful doing it.

It is then our jobs as leaders – board members and educators – to make certain everyone understands what that means.

How do we all address this?

As cooperative educators, you have formal responsibility for educating members and often other stakeholders on cooperatives. This responsibility also lies with the board and management of our co-ops who must be educators every day.

It is a job that never ends, but in reality the task is fairly clear cut. I'd like to offer a few basic guidelines I believe contribute to success.

First, keep it simple. Determine what the "big picture" is for your organization and articulate it clearly. For CHS, as for most co-ops, the bottom line is our ability – or any cooperative's ability – to be economically successful enough to meet stakeholder needs long-term. Essentially, the bottom line is the bottom line. If we are profitable, we can add value and be viable long term. If we are not, we won't meet anyone's needs. All stakeholders need to understand this and how it factors in to every decision the co-op makes.

Second, formally identify your stakeholders. That may sound too elementary, but it's important to take time to think through and list who those individuals and groups are that have a vested interest in your organization.

Third, develop a plan that includes regular, consistent communication and education on your vision and mission, and strategic direction. Make sure you repeatedly touch each of your stakeholder groups with that communication and education. This will allow each of your stakeholders to understand their relationship to the co-op – whether as member, customer, employee or vendor – and help them establish reasonable expectations about what the cooperative can and cannot do while still fulfilling its vision and mission.

Fourth, when major events occur or change looms, identify issues that may be of concern to stakeholders and address them head on before controversy brews. It's not 100 percent foolproof approach, but it can prevent unneeded conflict and misunderstanding.

This is the course CHS has followed as we've pursued our legal name change. All CHS board members, as well as management and key field staff, have been thoroughly prepared to raise and respond to issues of concern to members, agricultural organizations and cooperative groups. In the cases of some "tough sell" influencers, we came to them with the information in advance and have been successful in defusing problems.

Fifth, be consistent. You can't tell one group one thing and provide different facts or explanations to another. People compare notes and when they find discrepancies, your credibility suffers.

Finally, and most important, be honest. Stakeholders, no matter who they are, want the straight story, even when things are going badly. If you're going to sell a business, close a facility, lay off employees, delay equity redemptions or undertake any other difficult move, prepare people. While they won't cheer difficult news, your stakeholders will appreciate knowing. Most people don't like this kind of surprise. Preparation is essential.

Addressing the conflicting needs of stakeholders is an ongoing balancing act. t. But it doesn't require being flashy or fancy. What it requires is hard work and unrelenting effort.

For those of us at CHS, it means never letting up and never missing an opportunity to tell our story to stakeholders in good times and bad. Our President and CEO John Johnson estimates that he spends more than three fourths of his time communicating with our stakeholders. As board members, that's one of our major responsibilities.

It means meetings with stakeholders of all kinds – members, employees, lenders, customers, vendors. It means having an active voice with government and regulatory officials. It means written and visual communication. It means constantly reassessing the needs of a broad range of stakeholders, measuring them against our vision and mission and then communicating the decisions we make in the best interest of CHS.

The bottom line of all of this is understanding. Even when differences of opinion on specific issues can't be resolved, you can still build understanding. In the case of our growth in the convenience store business through branded independents, I recognize that there will always be a minority among our traditional member owners that oppose this direction. Nonetheless, through concerted efforts to share why we believe this strategy is in the best interest of CHS – and its member-owners -- we have gained support, or at least acceptance, from the vast majority.

Serving multiple stakeholders is about determining your cooperative's course and sticking firmly to it. You can't be all things to all people, but you can be clear about who and what you are and remain true to that.

For those of us in this room, it comes back to that word I began with. Stakeholder. Each of us is a stakeholder in our organization. We must hammer our own stakes into the ground and hold firm to our commitment to help those with a vested interest in our cooperatives understand its value to them and to others who depend on our ability to fulfill its vision and mission.

Thank you for the opportunity to be here today. I look forward to your questions and your thoughts.