



Hershey Foods

It's Time to Kiss and Make Up

TEACHING NOTE

Purpose of the Case Study

1. To provide students with an appreciation for the impact that a corporation's culture has on its business operations.
2. To allow students to gain an understanding of how valuable effective crisis management is for corporations who find their reputation tarnishing;
3. To encourage students to improve their critical thinking by establishing business strategies to deal with a crisis situation;
4. To provide students with an appreciation for the value of clear communication to stakeholders about a business issue;
5. To give students an appreciation for the importance of continuing communication, both internally and publicly, to the long-term success of any business enterprise.

Identifying the Business Problem

In his first year as CEO of Hershey Foods Richard Lenny faced conflict with the community, employees and investors. He had already endured the longest strike in the history of the company, closed plants, and managed to increase profits by 10%.

This case was prepared by Research Assistants Michaelyn M. McCoy and Laura A. Castrillo under the direction of James S. O'Rourke, Concurrent Professor of Management, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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The Hershey Trust Company, majority shareholder of Hershey Foods, is responsible for funding the activities of the Hershey School, and in recent times has come under criticism for lack of diversity in its portfolio. In an attempt to correct this situation, the trust forced Richard Lenny to put the company up for sale. Community outcry ensues, as school alumni, employees, former trust members, and government officials all intervene to block the sale of the company.

Forecasting the Most Desirable Outcome

The most desirable outcome for the Hershey Trust would have been to successfully complete the sale of Hershey Foods, gain a premium on the company, and use the funds to diversify its portfolio and ensure the sustainability of Hershey School.

Identifying the Critical Issues

These issues are at the heart of the case for Hershey Foods and the Hershey Trust:

Hershey Foods

- Hershey Foods is pitted against its own largest shareholder. Once the decision was made to not sell the company, Hershey said it had no intention of renewing its proposal to buy back shares of the company's stock from the trust and remained committed to growing its business.
- Managing investor relations. The Trust's decision leaves the impression that Hershey Foods can never be sold. Small investors that own 69% of the stock, yet have less than 30% of the voting power are angry and feel neglected because they were not considered in the decision to sell the company.
- Employees have been through a trying time, worrying about layoffs, and not focusing on the day to day operations of the company.
- Competitors have had a good look at the company's operations.

Hershey Trust

- Protecting the trust's image. The trust was vilified by the community during the auction process.
- Addressing the issues that prompted the trust to explore the sale.
- Trust fractured due to disagreements generated during the sale process

Listing the Possible Solutions to the Business Problem

The Hershey Trust and Hershey Foods could have successfully executed the sale if they had anticipated the reactions to the announcement and worked to diffuse the hostility that resulted from the community, alumni, former employees, and government officials.

Members of the Trust could have worked with the community leaders and minority investors to identify areas of concern, such as:

- The possibility of factory closings and layoffs.
- Would the Trust require a commitment from the prospective buyers to maintain jobs in the community?
- What type of severance package could the laid off workers expect?
- Impact on the community and on the Hershey School.
- Would the Hershey School students benefit from an increased endowment at the cost of the disruption of their community and increased unemployment?
- What is an acceptable price for the sale of the company?
- Minority investors wanted an assurance from the board that they would obtain the necessary premium from the company.

Explaining How to Communicate the Solution

Communication with the key stakeholders could be conducted a number of ways, depending on their physical location:

- Minority investors would have to be contacted through press releases, as they are dispersed throughout the country.
- Messages to the school alumni could be communicated through Ric Fouad, head of the alumni association, who spent a significant amount of time in Hershey working on the derailing the sale.
- Messages to employees would be most effectively communicated through the use of the company's intranet, or through meetings with supervisors and managers.

- Community leaders should be invited to engage in a dialogue with members of the Hershey Trust to resolve their differences and find an outcome that would benefit all parties.

Teaching the Case

One Week Prior

Distribute the case at least one lesson before you intend to discuss it in class. Tell the students that you intend to focus on several matters during the discussion:

- How valuable crisis management is for corporations who find their reputation tarnishing;
- Establishing business strategies to deal with a crisis situation;
- The value of clear communication to stakeholders about a business issue;
- The importance of continuing communication, both internally and publicly, to the long-term success of any business enterprise.

First 30 minutes of Class

Spend the first 5-to-10 minutes of the class session briefly recapping the facts of the case. Then, for the next 20 minutes, have the students identify the following:

- The impact that a corporation's culture has on its business operations.
- The critical issues involved in both Hershey Foods and Hershey Trust Company's decisions;
- The stakeholders in this case and their separate interests; review the pertinent assumptions made by each of the stakeholder groups;
- The decision options available to their organizations.

Use the Questions for Discussion to aid student discussion, if needed.

Summarize Their Response

Ask students for their communication plan. What would they have done if they had been in Hershey Foods and Hershey Trust Company's place?

Issues to consider include:

- *Strategic Communication Objectives.* What are the organization's strategic business objectives and how can we link them directly to our communication objectives?
- *Audience Analysis.* Who are we most concerned about reaching? Why do we want to communicate with them? What outcome do we hope for when we reach them?
- *Message Construction.* What do we want to say to each of these audiences? Will our messages differ from one set of stakeholders to another? How simple or complex should the message be?
- *Medium Selection.* How should we try to reach these stakeholders? Should we consider electronic means? How about print means? Should we telemediate our message through the press? Should we try to communicate directly with one or more stakeholder groups?
- *Measurement of Outcomes.* How will we know if we have succeeded? What criteria should we use to determine success? If we're not successful, what should we consider changing first: medium, message, audience, or objectives?

Last 15 minutes of Class

Conclude the discussion. Would they have done anything different? The key to this case, as with nearly all other management communication cases, is to let students speak freely, but guide their comments towards the issues facing both organizations.

A Timetable of Events and a list of suggested Questions for Discussion follow for your teaching reference.

Timetable of Events

Spring 2001: Former Kraft Foods executive, Richard Lenny takes over as CEO of Hershey Foods. Lenny is the first outsider to run the company.

October 2001: Under CEO Richard Lenny's direction, Hershey Foods begins a \$275 million restructuring. The restructuring efforts are intended to cut costs and include the closing of 3 manufacturing plants and a distribution center, the sale of non-chocolate food products, outsourcing of cocoa production, and the offering of a voluntary separation package to a large portion of Hershey's management.

December 2001: Following an 18-month investigation prompted by alumni charges of mismanagement by the trust board, deputy attorney general Mark Pacella advises Hershey Trust Company to diversify its holdings. Diversification would assure the financial future of Milton Hershey School and other dependent organizations.

March 2002: The trust board votes 15-2 to seek a buyer for Hershey Foods. A trust board delegation meets with Hershey Foods CEO Richard Lenny and tells him to put the company up for sale. Lenny opposes the sale and requests time to develop an alternative plan.

April 26, 2002: Chocolate Workers Local 464 union members reject a proposed contract that would double employee contributions for health insurance premiums and begin a 44 day strike.

May 2002: Richard Lenny presents a stock buyback plan to the Trust as an alternative to the sale of Hershey Foods. Hershey Foods Corporation would buyback 50% of shares held by the trust and would help the trust liquidate its remaining shares in the open market over the next 3-5 years.

May 14, 2002: Hershey Trust Company CEO, Robert Vowler, sends a letter to Lenny rejecting buyback plan. Members of the trust threaten to fire Lenny if he does not solicit bids. Trust indicates that they will sell the company with or without its assistance.

July 2002: Richard Lenny reluctantly agrees to sale of company if Hershey Foods management team is allowed to lead the sale process.

July 25, 2002: Hershey Trust Co. publicly announces that it is seeking a buyer for Hershey Foods. The trust states the reason for the sale as a need to diversify its more than \$5 billion portfolio and guarantee the fiscal future of the Milton Hershey School.

By July 29, 2002: Multiple shareholder suits filed seeking assurance that Trust would receive maximum value for its controlling shares.

July 30, 2002: Community leaders, school alumni, and government leaders voice opposition to sale.

July 31, 2002: Pennsylvania Attorney General, Mike Fisher, expresses his disapproval of the Trusts plan to sell Hershey Foods. The attorney general's office has jurisdiction over charitable trusts.

August 1, 2002: Former Trust company trustees denounce the sale indicating the idea was rejected during their tenure.

August 2, 2002: Community protest rally draws 500 participants to picket offices of Hershey Trust company. Community opposition expands to include www.friendsofhershey.org website, online petition to oust trust board members, “derail the sale” lawn sign campaign, and a protest rally at the state capital.

August 7, 2002: Amidst the firestorm of protest, the trust board meets and reaffirms its decision to sell the company.

August 8, 2002: Pennsylvania lawmakers consider legislation requiring consideration of community impact before the sale of a corporation can be executed.

August 9, 2002: Attorney General and Republican candidate for governor, Mike Fisher, vows to take legal action to prevent sale.

August 15, 2002: Dick Zimmerman and Ken Wolfe, former Hershey Foods chief executives, add their voices to the opposition.

August 17, 2002: Potential bidders begin to tour Hershey factories in Derry Township. Final bids are due September 14.

August 20, 2002: Trust board member Bill Alexander issues a letter suggesting growing uncertainty in board’s commitment to sell company.

September 3, 2002: Attorney General Mike Fisher appears in Dauphin County Orphan’s Court seeking an injunction to block the sale of Hershey Foods based on the detrimental financial impact the sale would have on the community of Hershey.

September 4, 2002: Judge Warren G. Morgan grants an injunction prohibiting the sale of Hershey Foods. News of the injunction caused a \$3 decline in the price of Hershey Foods stock.

September 17, 2002: Wrigley makes presentation of its \$12.5 billion proposal that includes concession to uphold the company’s commitment to the community. Trust board scheduled to meet Wednesday September 18, 2002 to accept Wrigley’s offer.

Late evening September 17, 2002: Trust board rejects all bids and requests Hershey Foods discontinues the process of finding a buyer.

Questions for Discussion

1. Would the long-term financial health of Hershey Foods and the Hershey School been improved by the execution of the sale? Does the Trust's decision to forgo selling the company enhance Hershey's stability?
2. What are the critical issues facing Richard Lenny as he positions Hershey Foods for the future? Who are the constituents he must address? How should he address them?
3. How does Lenny approach the strained relations with investors? What should his message be?
4. Is it possible for the community of Hershey to exist in the 21st Century as the industrial garden city Milton Hershey envisioned? What responsibility does Hershey Foods have to the community?
5. Could the outcome of the sale process have been different if the Hershey Trust Company had anticipated public reaction? If so, what message and approach should they have employed?