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The Hershey Trust: Managing Conflicts of Interest in Corporate Governance

As Layla Dylan[i] settled into her seat for the flight home, the complexity of her position was top of mind. Being one of 11 members[1] of the board of directors for the Hershey Company, she had just received a presentation from snack food company Mondelez regarding a takeover bid. Under a traditional governance structure, her primary concerns would be ensuring that the business case for the acquisition made sense and the shareholders she represented would achieve a worthwhile return on the deal. She certainly had to do this as a member of the board, but her responsibilities did not end there. Dylan was also a member of the board of the Hershey Trust Company, a trust that oversaw the funding of the Milton Hershey School and that had a responsibility to provide for the school in perpetuity.[2] A large portion of the trust's funding was represented by its stake in the Hershey Company,[3] making her deliberation on Mondelez's offer even more complicated and multifaceted. Under normal circumstances, this shared relationship worked in concert – if the company was doing well, then the trust's funds were doing well. So, making the best decision for the Hershey Company matched the best decision for the Hershey Trust Company. However, in this instance, Dylan had to judge the impact of liquidating the billions of dollars in shares that the trust held and what it could mean for the school's long-term future. Beyond money, both institutions had a rich history of community investment and values-based outreach, indicating that they were motivated by several factors beyond pure monetary valuations.[4, 5]

On the surface, Dylan knew that the strategy behind the deal made sense. Despite only being spun off from Kraft Foods in 2012,[6] Mondelez had proven itself as a highly successful company. Based in Illinois, it owned many of the world's most famous snack food brands including Oreo, Chips Ahoy, Cadbury, Ritz, and Triscuits.[7] Behind the strength of these brands and a growing snack market Mondelez held a leadership position in nearly every category in which it competed, driving revenues to nearly $30 billion.[8] If there was any weakness in its portfolio, it was that the company made the majority of its money outside of the United States – a fact which made an acquisition of the extremely U.S.-centric Hershey's a very attractive proposition.[9] Similarly, Hershey could benefit from the international exposure of Mondelez, because 85% of

i Layla Dylan is a pseudonym. This character is not meant to represent any specific individual, and instead is a tool to build context and promote course discussion and learning.

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