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A Bitter Aftertaste Hershey Struggles to Master the Sustainability Challenge

Utopia of Chocolate

Hershey is an iconic American brand. Founded as the Hershey Chocolate Company in 1894 by entrepreneur and philanthropist Milton S. Hershey, the Hershey Company (as it's now known) has come to be synonymous with chocolate in the minds of millions of consumers. Its classic brown-wrapped bar is almost as recognizable as the curvaceous Coke bottle. Today the company boasts annual revenues of over \$6 billion, employs some fourteen thousand workers, and sells candies and confections under names that include not only Hershey itself but also Kit Kat, Twizzlers, Jolly Ranchers, and a growing array of “premium and artisan” chocolate brands.

Perhaps even more intriguing, Hershey has managed to expand into a global giant with operations in countries around the world and a growing presence in markets from China to Mexico, while steadfastly clinging to its image as a classic American company. At the heart of this image is Hershey's home base, the bucolic Pennsylvania town once called Derry Church but long since renamed in honor of the man and the company whose history dominates the community.

Indeed, Hershey, Pennsylvania, is much more than the home of a chocolate factory. It's a popular tourist attraction whose mission is to combine chocolate with family fun. On a typical summer day in Hershey, you'll find tourists strolling Chocolate Avenue, gawking at streetlights shaped like Hershey Kisses and shopping for candy-themed souvenirs at the dozens of gift shops. Bedazzled children and



obliging parents can be seen lining up for tours of Hershey's Chocolate World and squealing with delight on the ten roller coasters at nearby Hersheypark, while those with more sedentary tastes relish a whipped cocoa bath or chocolate hydrotherapy at the Hotel Hershey's pricey spa, or simply savor the sweet aromas wafting from the factory.

All these pleasures have one thing that unites them even more than their chocolate flavor: the steady stream of income they produce for Hershey's twelve thousand residents, nearly all of whom have some connection to the company. It's a heartwarming image—a charming American city built on the heritage of a classic company and a product loved by almost every child—and plenty of adults.

Making the story even more charming is the history of the connection between the Hershey Company and the town it dominates. Their fates are closely entwined, and that's the way Milton S. Hershey wanted it.

The deeply religious Hershey, a member of the socially conservative Mennonite sect, wanted his wealth to be used “for a purpose of enduring good,” and he viewed his little Pennsylvania town as a utopian community, designed and managed for the good of all its inhabitants.¹

Hershey himself largely built the town in the early years of the twentieth century. Through his Hershey Improvement Company, he founded most of its leading institutions, including the local bank, department store, zoo, and public gardens modeled on those at the French royal court in Versailles. He laid out the bucolic street design, built a trolley company, and designed houses for factory workers and bigger houses for corporate executives. He even founded a community college that local residents and company employees could attend free of charge. During the Great Depression, despite a 50 percent drop in chocolate sales, he kept the workers from his factory busy building a hotel, a community center, a sports arena, and public schools—all, of course, bearing the Hershey name.

Milton also founded the Hershey Industrial School—now known as the Milton Hershey School—which today provides free room and board, clothing, medical care, and schooling for some eighteen





hundred disadvantaged children. The charitable trust that Hershey created in 1909, which owns and operates the school, also owns or controls about 70 percent of the voting shares of the Hershey Company. As the company's website declares with justified pride, "Students of Milton Hershey School are direct beneficiaries of The Hershey Company's success."²

Yet despite the noble intentions of Milton Hershey and the undoubted good the company has done, Hershey's once sugar-sweet reputation has turned increasingly bitter in recent years. Headlines about Hershey no longer focus solely on happy customers, enthralled tourists, or charitably sponsored schoolkids. Instead, the news about Hershey has centered on a series of embarrassing controversies that have put the company in a startlingly negative light.

The Dark Side of an Icon

Consider, for example, the rash of disturbing stories that hit the presses in August 2011—the height of the tourist season in Hershey—when some four hundred young foreign workers at a Hershey plant in Palmyra, Pennsylvania, staged a noisy walkout over their mistreatment by the company. The students had been brought to the United States from such countries as Costa Rica, China, Poland, Turkey, and Romania through the State Department's J-1 guest worker visa program. They'd been told, in the words of a recruiting brochure, "You will gain valuable work and life experience, expand your resume, improve your English, have opportunity to travel in the U.S., make great memories and form lasting relationships. No matter where you end up in the U.S., your Work and Travel Program is sure to be a summer you will never forget!"³

Sure enough, it was an unforgettable summer—but not in the way the students expected. Rather than experiencing American culture and making lifelong friendships, the students found themselves laboring in candy warehouses, packing and lifting fifty-pound boxes of Reese's Pieces, often on the 11 PM overnight shift. They earned so little that they couldn't even cover their grossly inflated living



expenses—one group of six students was reportedly charged \$2,400 per month to share a three-bedroom apartment normally rented for \$970.

“There is no cultural exchange, none, none,” said one twenty-year-old Chinese student. “It is just work, work faster, work.” A Ukrainian student added, “All we can do is work and sleep.”

With the help of organizations including the National Guest-worker Alliance and the Service Employees International Union, the students brought their plight to the attention of authorities—and the world. Officials at the Labor and State Departments promised to launch investigations. Making matters worse for Hershey, critics in the media were quick to link the apparent abuse of student workers to a broader picture of questionable labor practices by the company. In a scathing op-ed titled “America’s Sweatshop Diplomacy,” Fordham University law professor Jennifer Gordon pointed out that the work done by the students had previously been handled by unionized Hershey workers earning between two and four times as much. Their jobs had been eliminated, their productivity replaced by that of unorganized workers who were easier to exploit. She called Hershey’s use of low-wage foreign students “a microcosm of the downsizing and subcontracting that so many American companies have pursued during the past few decades in search of ever cheaper labor.”⁴

It’s arguable that the negative spotlight on Hershey was somewhat unfair. As company spokespeople were quick to point out, Hershey had not hired the student workers directly. Hershey owns the Palmyra plant where they labored, but the facility was managed for Hershey by a logistics company called Exel. Exel, in turn, had outsourced its staffing to a vendor called SHS OnSite Solutions, which in turn recruited the student workers through a nonprofit organization known as Council for Educational Travel, USA (CETUSA). The glowing promises of “opportunity to travel” and “great memories” had come from CETUSA, not Hershey itself.

These mitigating factors are undeniable. But there’s also no doubt in the public’s mind that a company like Hershey is ultimately responsible for conditions in a factory it owns and profits from. Yet Hershey’s



only response to the revelations was a belated effort to pressure its labor suppliers to offer the student workers a week's vacation.

Subsequent investigations made it clear that the members of Hershey's shadowy chain of labor suppliers had behaved very badly. In February 2012, the Occupational Health and Safety Administration fined Exel for failing to report forty-two serious injuries between 2008 and 2011. And in November 2012, the federal government fined all three contractors \$143,000 and ordered them to pay more than \$213,000 in back pay to the foreign students.⁵

The Hershey Company wasn't named in the case. Nonetheless, the company's reputation had been seriously damaged by the ongoing publicity. Understandably, every news story focused on the Hershey connection and the harsh light it shed on a classic American institution. Which makes it strange that, when news of the government findings appeared, spokespeople for Hershey refused to respond to questions from the media. Hershey's own website—which carefully tracks most news about the company—contained no references at all to the ongoing controversy. And Hershey's corporate social responsibility (CSR) report for 2011—which devoted eight pages to the company's labor policies and practices, all avowedly designed to keep Hershey "a great place to work"—failed even to mention the guest worker case.⁶

It was a troubling story that left many people wondering about the reality behind the glowing Hershey image.

A Habit of Secrecy

Hershey's odd refusal to publicly address the mistreatment of young guest workers—for which many people held the company liable, regardless of its legal responsibility—is unfortunately totally consistent with a company tradition of operating behind closed doors that, over the years, has done much to tarnish the proud legacy of Milton Hershey.

For example, although Hershey has always boasted of its philanthropy, details of how the company operated and its impact on the



communities that hosted it have traditionally been hard to come by. Media analysts and social activists seeking such information were routinely turned away. It wasn't until 2010 that Hershey finally joined competing firms in the confectionary industry by issuing its first CSR report. This long-overdue report finally addressed some of the more controversial aspects of the company's business, including its environmental practices, its labor policies, and the impact of chocolate candies in a world where childhood obesity is a growing public health problem.

Hershey's report claimed that the company had made an exemplary commitment to responsible behavior in all these areas. In his "Letter to Stakeholders," John P. Bilbrey, Hershey's CEO since May 2011, declared, "I am confident that Hershey's CSR strategy will help support and advance our growing global business. It is based on our values, aligned with our culture, focused on partnerships, open to change and evaluated through continuous improvement measures."⁷

But many of Hershey's critics were less impressed. Consider, for example, the company's record on ethical sourcing of cocoa, which is of course a major component of Hershey's most popular products.

Around 70 percent of the world's cocoa crop is harvested in West Africa, where abusive human rights practices such as forced labor, child labor, and human trafficking are rampant. In countries like Ghana and Côte d'Ivoire, children are pulled from school, forced to work in the cocoa fields and factories, and frequently injured on the job. Human rights activists have been protesting these conditions for years, and a number of food companies have responded with substantive changes. They've instituted programs to trace the sources of their raw materials, moved to enforce decent labor standards, and sought certification for their products by Fair Trade, which provides the strictest system of external monitoring in this arena.

On these issues, Hershey trails others in its industry. Its CSR report lists a number of initiatives aimed at ensuring more responsible sourcing, including a five-year, \$10 million investment in "cocoa sustainability efforts" and a project called CocoaLink that uses mobile technology to deliver training on topics including child and forced



labor to farmers in Ghana.⁸ At first glance, this sounds impressive. But back in 2009, a rival chocolate firm—the Swiss-based Nestlé—had announced plans to invest \$110 million in sustainability initiatives over a ten-year period, just one of several industry programs that dwarf Hershey’s comparatively tiny effort.⁹

Business magazine *Fast Company* summed up the company’s track record by saying, “Hershey, despite having a market share in the U.S. of over 40%, is doing the least in the area of fair trade.”¹⁰ In October 2012, Whole Foods announced that it was halting orders of Hershey’s “artisan” Scharffen Berger chocolates due to concerns over child labor among Hershey’s West African suppliers.¹¹ And a consortium of environmental and labor groups was so underwhelmed by Hershey’s claims of social responsibility that it issued its own analysis rebutting the company’s official CSR report: *Time to Raise the Bar: The Real Corporate Social Responsibility Report for the Hershey Company*. The report concluded,

Hershey, one of the largest and oldest chocolate manufacturers in the United States, prides itself on its commitment to supporting its community and underserved children in the United States, yet it lags behind its competitors when it comes to taking responsibility for the communities from which it sources cocoa. Hershey has no policies in place to purchase cocoa that has been produced without the use of labor exploitation, and the company has consistently refused to provide public information about its cocoa sources.¹²

Look closely at that last sentence. The issues of stakeholder engagement, trust, and transparency leap to the surface. The more one studies the Hershey track record, the less the 2011 student worker fiasco looks like an outlier. Instead, history suggests that Hershey’s continuing sustainability problems are linked to a consistent corporate culture whose negative features—especially a penchant for secrecy—repeatedly undermine the company’s attempts to live up to its self-image as a model of responsible business.



The Hershey Heritage Goes Up for Sale

One of the most dramatic episodes highlighting Hershey's failure to practice the principles of transparency and stakeholder engagement burst into the news on July 25, 2002.¹³ On that date, which the townspeople of Hershey came to call Black Thursday, a story in the *Wall Street Journal* revealed that the board of the Hershey Trust, the charitable organization that owned a controlling stake in the Hershey Foods Company and thereby in the future of everyone in town, had suddenly decided to sell the company to the highest bidder.¹⁴

The news flashed through town. The questions followed in an instant. Why sell Hershey? Who might the new owners be? What would they do with the Hershey plant, the theme park, the spa and hotel and gardens, and all the other attractions that had made their town a center of tourism? What would happen to the chocolate-related jobs that drove the local economy? Would Hershey, Pennsylvania, become a ghost town?

No one could say.

Of course, the idea of putting a company up for sale is far from unprecedented. It's a story that has been told in one company town after another all across America: corporate interests decide to sacrifice the local economy, culture, and tradition in pursuit of profit. And in most towns, after a period of dismay and anger, the citizens quietly accept their fate.

Not in Hershey.

A coalition of angry citizens formed within hours. It included former CEOs of Hershey who hated the idea of selling the company they'd nurtured; leaders and members of Chocolate Workers Local 464 of the Bakery, Confectionery, Tobacco Workers and Grain Millers International, the union that represented twenty-eight hundred employees at the Hershey plant; alumni of the Milton Hershey School; and thousands of business owners and residents of central Pennsylvania who feared the death of a town they cherished.

A week later, five hundred townspeople converged on Chocolate town Square for the first protest rally in the history of bucolic,



conservative Hershey. The emergence of a broad coalition of activists vowing to fight the sale was the last thing Hershey's leaders had expected. And on August 12, an ambitious state politician—Pennsylvania attorney general Mike Fisher—got involved. That day, Fisher filed a petition with the seemingly named-for-TV Orphans' Court Division of the Court of Common Pleas of Dauphin County, Pennsylvania, calling for prior court approval of any deal to sell Hershey. This was an ironic turn of events, considering that the impetus for selling Hershey seemed to have originated with a suggestion by a member of Fisher's own staff. In December 2001, the staff member had urged the board of the Hershey Trust to diversify its stock holdings, 52 percent of which were in Hershey Foods. Fisher would later say that his office simply had in mind a sale of a portion of the Hershey stock—not a complete divestiture. But by then the damage from the misunderstanding—if that's what it was—had already occurred.

The remarkable battle for control of Hershey that followed illustrates many of the complexities of running a responsible business in an age when stakeholders of every stripe are increasingly assertive, outspoken—and powerful. And it raises a host of questions that business leaders everywhere need to consider—questions like these:

- Do the responsibilities of a business manager go beyond earning the highest possible profits? If so, what are those responsibilities, and how should they be balanced with the pursuit of profits?
- What responsibilities does a company have to its workers, their families, the community where they live, and society at large? Is it enough to pay fair wages, provide competitive benefits, and supply needed goods and services—or should a company do more?
- What information should be disclosed about corporate decisions and activities to those who have a stake in them? How should the leaders of a company take into account the viewpoints and concerns of those stakeholders? And who should have a say about the fate of the company?



- How should the answers to these questions impact the daily decisions made by leaders of a company? If a company does have responsibilities to society that demand the involvement of a wide range of stakeholders, how do these responsibilities affect the management methods and strategic approaches of leaders in every department of the business?

The leaders of the Hershey Company and the Hershey Trust were upstanding citizens of the corporate world and the local community. Yet when challenged to chart a course for future decades in a rapidly changing world, they stumbled, hurting the company financially and leaving Wall Street and the American public with a badly damaged image—one that subsequent events have failed to repair. The reason, we believe, is that they failed to adequately address the questions we've just raised. It's a mistake that other business leaders must avoid.



The Chocolate Hits the Fan



The news that Hershey Foods was in play was big news on Wall Street. Hershey's stock rose from \$63 a share into the seventies, and a list of potential buyers quickly emerged, including such international food industry powerhouses as Kraft Foods, Nestlé, and Cadbury Schweppes. Sale prices of up to \$12 billion were mentioned in the press, and lawyers, bankers, and fund managers began licking their chops at the prospect of enormous fees and profits.

But in Hershey, Pennsylvania, the news produced shock and dismay. Bruce Hummel, business agent for the union, recalls being stunned when he heard that Hershey was for sale. "The National Labor Relations Board rules stipulate that the company is supposed to inform the union when a major change like a sale is in the works. They never said a word to us."¹⁵

Local folks also wondered: Why had Hershey kept them completely in the dark? That isn't how people in small-town America treat their friends and neighbors . . . unless they are ashamed or embarrassed about what they are doing.





In retrospect, some Hershey residents felt that the decision to sell the company must have been in the works for months. CEO Rick Lenny had been the first outsider named to direct the fortunes of Hershey Foods. Shortly after his arrival at the company in March 2001, a number of long-term company executives had been quietly pushed toward early retirement in what some employees called “the purge.” Now that the sale plan had been announced, many concluded that Lenny had been hired specifically to clean house and make the company more attractive to a would-be buyer. Hershey confirmed no such thing. But under the circumstances, the locals were now unwilling to accept the company’s word.

Stunned and angry townspeople felt they had no choice but to launch a grassroots campaign to oppose the sale, including the formation of a watchdog group they called Friends of Hershey.

The international fame of Milton Hershey’s charming town had always drawn positive attention to Hershey Foods. Now it fueled controversy. People from around the world took an interest in the fate of the much-loved company and the town that millions had visited as tourists. Columnists and commentators who had recently gorged on the greed and duplicity of companies like Enron, WorldCom, and Adelphia found the Hershey story a tempting treat, writing feature stories on the saga with zinger headlines like “A Bittersweet Deal,” “Putting the Bite on Hershey,” and the seemingly irresistible “Kiss of Death.”

Everyone had something to say about the proposed sale, most of it negative. *BusinessWeek*’s feature story “How Hershey Made a Big Chocolate Mess” excoriated the trust’s handling of the sale, citing its failure to anticipate public protests, failure to win advance support from key constituencies, and failure to study the impact of any sale on the Milton Hershey School and its students.¹⁶

Outside groups connected the Hershey controversy to their own causes. A closely linked trio of nonprofit organizations—the Campaign for Tobacco-Free Kids, Essential Action, and Global Partnerships for Tobacco Control—weighed in with a strong protest against the sale. One of the potential buyers was Kraft Foods, whose



parent company was the tobacco firm Philip Morris. “It would be terribly ironic if the School Trust were to effectively force the sale of Hershey Foods to a company associated with the orphaning of thousands upon thousands of children worldwide,” wrote Matthew Myers, president of the Campaign for Tobacco-Free Kids, in a September 12, 2002, letter to Robert C. Vowler, CEO of the trust. “Hershey and Philip Morris go together like chocolate and poison.”

Executives at the company and the trust hunkered down. Apparently stunned by the reaction of the town and bewildered by the avalanche of bad press—a new phenomenon for Hershey at the time—they refused comment when besieged by newspaper and TV reporters, and failed to provide spokespeople to air their side of the controversy at public forums. The investment world, initially delighted, began to voice displeasure and doubts. In early August, two Wall Street analysts downgraded Hershey shares as a result of the mishandling of the company sale. Others, certain that the sale would go through despite the controversy, began bidding up the stock price—typical behavior, of course, when a company is in play. Hershey stock reached a high of \$79.49 on July 29, then stayed in the upper seventies as the company management began weighing potential offers, while all around them protests and legal maneuverings swirled.

About-Face

Community outrage grew steadily. A petition demanding the ouster of the trust’s board grew to 3,000 signatures, then to 6,500, then to 8,000—in a town whose total population was only 12,000. The protests attracted all sorts of unlikely allies, from staunchly Republican small-business owners who contributed truckloads of pizzas and bottled water to sustain picketing union workers, to prosperous local realtors who showed up wearing fur coats to take lessons in carrying protest signs from union leader Bruce Hummel.

Determined to press on with its plans despite the outcry, the trust set a deadline of September 14 for prospective buyers to submit bids. By September 17, 2002, a deal was all but finalized to sell Hershey to the Wrigley Company for \$12.5 billion. The sale price represented



a 42 percent premium over the price of the stock prior to the sale announcement. It was also a full billion dollars richer than the only other offer on the table, a joint bid from Nestlé and Cadbury Schweppes. All in all, it was an excellent financial package, reflecting confidence that the Pennsylvania courts would ultimately approve the deal.

But as in any good small-town drama, there was a surprise ending. Just before midnight, Hershey Foods issued a terse statement: “Hershey Foods Corporation announced today . . . that the Trust’s Board of Directors has voted to instruct the company to terminate the sale process that the company initiated at the direction of the trust.”¹⁷

The board had decided to kill its own deal—despite the \$12.5 billion on the table and the \$17 million in banking and other fees it had already invested in the scheme.

Board members refused to explain their reasons for quashing the sale, just as they had for putting it on the auction block. But media leaks from sources close to the board indicated that the overwhelming and continuing protests from the community had eventually split the board in two. Feeling like pariahs among the angry employees and people of Hershey, first one, then several board members had backed away from the plan. Finally, support for the sale utterly collapsed.

Hershey Foods CEO Rick Lenny, who had negotiated the deal with Wrigley, was deeply embarrassed and furious at the sudden turnaround, reportedly screaming at board members, “We had a deal! You told me if I brought you a deal that was acceptable we would all go ahead.”¹⁸ The investment bankers involved in arranging the deal were equally angry. One banker barked, “This has nothing to do with anything other than the politics.”¹⁹

Media around the world reported the startling outcome of the business battle in David-slays-Goliath tones. Thousands of Hershey employees, residents of Hershey, and Hershey School alumni celebrated, feeling that they had saved their company and their community through the power of protest.

The mood at Hershey headquarters was somber. Hershey stock fell nearly 12 percent to \$65 the day after the sale was cancelled.



By contrast, Wrigley stock fell just eight cents; conservative investors who favored Wrigley may have been relieved to be taken off the hook by Hershey's reluctance to consummate the deal. The *Wall Street Journal* observed, "Hershey now is left to chart a course as a stand-alone player that effectively can't be sold—but whose controlling shareholder [the trust] has shown it is ambivalent about its long-term commitment to the company."²⁰

Two months later, under pressure from the community, the employees, and the Pennsylvania attorney general's office, ten members of the board of the Hershey Trust were ousted. A new eleven-member board was created that included four members not on the earlier board, all inhabitants of Hershey or nearby communities. Two months after that, as the dust was finally settling, *BusinessWeek* magazine enshrined the Hershey Trust Company among its "Ten Worst Managers of 2002."²¹

In the years since then, some things have changed while others have remained the same. Attorney general Fisher ended up being named by President George W. Bush to the United States Court of Appeals for the Third Circuit. Hershey has remained an independent business, majority control still firmly in the hands of the Hershey Trust. Richard Lenny served several more contentious years as Hershey CEO, battling his way through more labor disputes, plant closings, and intensified global competition until his retirement in 2007. And Hershey stock plummeted from its high price in the upper seventies, spending almost the entire next decade in the thirties and the forties. It failed to reach the \$70.00 level again until June 2012.

Lessons from the Chocolate Mess

The story of Hershey in the twenty-first century, from the failed sale attempt in 2002 through the student worker fiasco of 2011 and the child labor controversies of 2012, is the saga of a company that is continuing to grope for answers in a complicated and contentious business and social environment. But of course Hershey isn't the only company to face these sorts of challenges. Business managers of all



kinds, in all industries, can learn some crucial lessons of sustainability from the experiences of Hershey.

Focusing on profit alone can backfire. The managers who made the decision to sell Hershey Foods back in 2002 and those who, almost a decade later, hired student workers and paid them rock-bottom wages were doing the right thing by purely financial yardsticks. They were trying to maximize returns to the company. But in today's business world, the financial bottom line is not the only or even the most important measure of success. Executives also must consider the social, economic, and environmental impacts on anyone with a stake in the outcome.

The protests that derailed the Hershey sale were based on non-financial concerns: the economic impacts of the sale on company employees and their families; the social disruption it would cause to the community; and long-term effects on students, teachers, and alumni of the Milton Hershey School. Those nonfinancial concerns ultimately trumped the financial ones, causing what looked like a good deal to crater.

Businesses are accountable to more people than they may realize. In the abortive company sale, Hershey management acted as if their fiduciary duty was the only interest that mattered. They forgot about other crucial stakeholders with a vested interest in their actions. Some stakeholders had obvious connections to the company—the employees of Hershey Foods, residents of Hershey, alumni of the Milton Hershey School. Others proved to be equally important: the citizens of Pennsylvania; the media; and millions of Americans who knew, loved, and patronized the company and town. Board members even managed to overlook the legacy of Milton S. Hershey himself, whose vision for his company and town was repeatedly invoked against the sale.

The Hershey deal had aspects that may appear unique, but almost every company these days faces special circumstances that can disrupt its plans. Some are subject to activist investors who push hard in the opposite direction from where they want to go. Others rely on government contracts or public permits that can be held hostage by



politicians or threatened by environmentalists or the media. Some executives wake up to a demonstration by animal rights activists, an unexpected visit by a cameraman and correspondent from *60 Minutes*, the news that their headquarters is being occupied by Greenpeace, or a call saying, “The state attorney general’s office holding for you on line two.” Many rely on sensitive natural resources or suppliers in distant places who can upset the apple cart in dozens of ways.

So don’t lull yourself by thinking, “Nothing like this can happen to me, because my stock isn’t owned by a trust.” Chances are good that the world is still watching what you do and will react—strongly—if you make a Hershey-style blunder.

You are responsible for those who act on your behalf. Many businesses today sit at the center of a network of companies—suppliers, manufacturers, warehousing and shipping companies, wholesalers, retailers, and customer service specialists—that together form a complex value chain. As a result, most of the operations involved in bringing your product or service to customers may be performed by companies you don’t own or directly control. But this doesn’t reduce your sphere of responsibility—just the opposite. Stakeholders including consumers, the media, activist organizations, government agencies, and the general public will hold you accountable for actions taken by organizations in your network—such as a cocoa grower that employs child labor or a logistics company that exploits foreign students. In the Age of Sustainability, the excuse “We didn’t do it, our business partner did” simply doesn’t fly.

Bad things can happen to good companies that fail to take a broad view of accountability. Well-intentioned, well-managed organizations like the Hershey Trust and Hershey Foods that focus exclusively on shareholders as if they were the only stakeholders that matter are headed for trouble just as certainly as those that knowingly violate societal norms in pursuit of profit.

The outcome of the failed company sale could have been different. John Dunn, a former marketing executive at Hershey, emphasizes that the board could have succeeded if they had understood and managed their accountability: “In the end, it’s really not that important for Hershey Foods to stay in the hands of the trust. They could have



sold the company if they'd handled it properly. But by blundering ahead without communicating with the community, they sent the message that they were willing to endanger the sense of continuity and tradition that the people and businesses of central Pennsylvania had been counting on. That was just plain dumb.”²²

Among the most important stakeholder groups to whom businesses are accountable is the one that Dunn himself represents—employees. Most companies at least pay lip service to the importance of employees; slogans like “Our most valuable assets walk out the front door every evening” are featured in plenty of CEO speeches and annual reports. But many organizations fail to fully inform, involve, and engage their employees; many fail to provide them with the opportunity to express their deepest values on the job. By contrast, companies that take employee engagement seriously reap huge rewards: they enjoy better morale, productivity, and profitability (as well as avoiding needless destructive controversies like the one that Hershey suffered).

Transparency is crucial to success in an era of empowered employees and demanding stakeholders. Hershey has a long history of keeping to itself. In researching the story of the botched Hershey sale for this book, we spoke to numerous sources in and around the town of Hershey, including former employees and officers of the company—yet no company spokesperson or current executive would speak with us in any detail about the firm. Even such basic information as the identity of the products made in Hershey's various chocolate plants is treated as a closely guarded company secret.

Companies often have legitimate reasons for keeping secrets and for confining decisions to internal leaders and Wall Street bankers, as did Hershey and the trust. But bringing your stakeholders inside the tent on matters that might affect them is increasingly a matter of responsible corporate citizenship and sophisticated risk management.

When Hershey suddenly sprang its proposed sale on the general public, it was taking an unnecessary business risk, especially in light of recent warning signs (including a rare strike settled just weeks before the announcement). The furious reaction that derailed the sale was driven, in large part, by the fact that everyone except the bankers had been kept in the dark. According to John Dunn, “The way the



company handled the controversy compounded the problem. Instead of reaching out, they went into a bunker. They refused to make any public statements, failed to show up at community meetings, ignored calls for an open forum or debate.”

It’s hard not to agree with Dunn’s conclusion that this “was a textbook example of what not to do in a corporate controversy.”

Corporate culture has a powerful yet often invisible impact on a company’s sustainability. A year after the 2002 showdown, Hershey Foods CEO Rick Lenny was asked to name the most important qualities of a good chief executive. He emphasized “openness and transparency with the multiple constituents.”²³ It’s excellent advice, even if Lenny and his leadership team ignored it during their crisis and there is reason to believe their successors still don’t adequately practice it today.

Was Lenny being dishonest or hypocritical? Perhaps. But it’s also possible that he was quite sincere in his praise of transparency, yet equally unaware of the powerful undertow that Hershey’s traditional, deeply ingrained corporate culture exerted, making true transparency almost impossible. In the twenty-first century, companies can no longer get by with an attitude of father-knows-best paternalism. If your company culture isn’t evolving to meet the new expectations, even the best-intentioned sustainability program is likely to founder.

It’s instructive to compare Hershey’s corporate culture with the more savvy and responsible approach of one of Hershey’s biggest competitors and former suitors, Cadbury Schweppes. Part of the Kraft Foods family since 2010 (and now known simply as Cadbury), the British-based firm has long been considered one of the world’s most socially responsible companies. Among other enlightened practices highlighted in the company’s two-hundred-page sustainability report for the year 2004 (titled *Working Better Together*) is this description of how Cadbury Schweppes managed the closing of a plant that manufactured cough drops and chewing gum in Avenida, Brazil:

To increase production, logistics and distribution efficiencies and support our plans for growth and innovation, we decided to consolidate the Avenida production site into the modern facility at Bauru [also in Brazil]. We began the transition in October



2003 and aim to complete it by July 2004. While the closure of Avenida do Estado involves the loss of 300 jobs, 212 new jobs will be created in Bauru.

We have managed the impact of the changes by being open and transparent about what has to be done and by working with employees to do it in the right way. We informed all employees in advance of the closure and hired a firm that specializes in supporting large scale restructuring. The firm devised a programme, New Professional Project, to coordinate the redeployment of employees in the most supportive way. The programme included researching job vacancies with local companies and matching employees' capabilities, wishes and ambitions within the current job market and business environment.²⁴

Comparable openness and responsiveness by Hershey Foods in regard to the possible loss of jobs in Hershey, Pennsylvania—a community that is far more tied to the history and reputation of Hershey Foods than Avenida, Brazil, was to those of Cadbury Schweppes—might have defused resentments stirred up by the proposed sale and paved the way for its completion.

Politics is an inescapable part of business. The anonymous investment banker who complained bitterly that the cancellation of the sale “has nothing to do with anything other than the politics” was not wrong. The board's decision to pull back was a political one, in the sense that it was motivated by the belated recognition that most concerned stakeholders opposed the deal and would, in various ways, have withdrawn their support from the company if the sale had gone through. To a doctrinaire advocate of the free market, the fact that business leaders must consider the political impact of their decisions may be abhorrent. But it's a reality. Hershey's lack of political judgment and skills was a direct cause of the company's misfortune.

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The Hershey story shows that even a well-run company with a proud history of business and philanthropic achievement can stumble



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and fall when the principles of sustainability are ignored. Why has sustainability become such a crucial issue for today's businesses? And what must they do to address it successfully and avoid the kinds of mistakes that Hershey has made? The rest of this book will answer those questions.

