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Agency Costs, Charitable Trusts, and Corporate Control: Evidence From Hershey's Kiss-Off

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In July of 2002 the trustees of the Milton Hershey School Trust announced a plan to sell the Trust's controlling interest in the Hershey Company. The Company's stock jumped from $62.50 to $78.30 on news of the proposed sale. However, the Pennsylvania attorney general, who was then running for governor, brought suit to stop the sale on the grounds that it would harm the central Pennsylvania community. In September 2002, after the attorney general obtained an injunction, the trustees abandoned the sale and the Company's stock dropped to $65.00. Using standard event study econometric analysis, we find that the sale announcement was associated with a positive abnormal return of over 25 percent and that canceling the sale was followed by a negative abnormal return of nearly 12 percent. Our findings imply that blocking the sale destroyed roughly $2.7 billion in shareholder wealth. Moreover, instead of improving the welfare of the needy children who are the Trust's main beneficiaries, the attorney general's intervention preserved charitable trust agency costs on the order of roughly $850 million. Our findings contribute to the literature of trust law by supplying the first empirical analysis of agency costs in the charitable trust form and by highlighting shortcomings in supervision of charitable entities by the state attorneys general. Our findings also contribute to the empirical literature on takeovers by measuring the resulting agency costs of shielding the managers of the Hershey Company from the market for corporate control.

[Article co-authored with Robert H. Sitkoff]