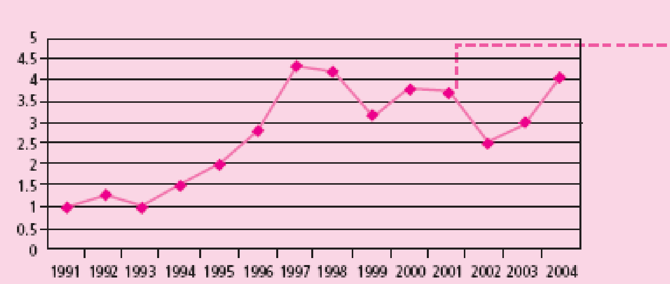
Disney Corporation: It all started with a mouse

Case taken from The International Business Environment, second edition (Palgrave, 2006), by Janet Morrison

Walt Disney, the founder of the Walt Disney Company in 1923, is famously quoted as saying to his successors in the company: 'I only hope that we never lose sight of one thing – that it all started with a mouse.' The business was started by Walt Disney and his brother, who rented a small studio to produce animated films, introducing its most famous character, Mickey Mouse, in 1928. It was in animated films that the studio excelled, and on which its reputation and brand are based. The company has grown into a $28-billion-a-year media and entertainment empire, consisting of film studios, theme parks and resorts, a television network and consumer products divisions. Much of this development has taken place under the leadership of Michael Eisner, who took over as chief executive in 1984. He is credited with the huge expansion of the theme parks and resorts. However, from the late 1990s, the company's performance took a downturn (see figure). New competitors in the theme park business, combined with the downturn in tourism following the World Trade Center attacks of 11 September 2001, affected theme park attendance. Wavering consumer confidence has affected the consumer products division, which needs new characters beyond Mickey Mouse – now in his seventies – to reinvigorate the Disney brand. The loss-making television network, ABC, having been a leading network in the 1970s and 80s, noted for nurturing creative ideas, fell behind the other major networks in the US. There has been a 'brain drain' of creative talent in the flagship animation division.



Disney's operating income 1991–2004 (estimate for 2004)
Source: Burt, 8 November 2004.

Eisner held combined roles of chairman and chief executive, while, in the vice-chairman's seat, was Roy Disney, nephew of the founder and still a substantial shareholder. The board consisted mainly of insiders and personal associates of Eisner. Roy Disney has been a leading critic of Eisner, and the corporate governance of the company generally, voicing concerns of many, including the institutional shareholders, who hold 30 per cent of Disney stock. They have criticized Eisner's autocratic management style for destroying morale in the company. They also point to poor investment decisions which affected shareholder value.

From 2001, changes in corporate governance were made, to reflect recommended best practice. Enlargement of the board to thirteen members was followed by the introduction of more independent directors in 2004. The company announced that all but three directors are independent, and it has adopted a code of business ethics. These moves, however, did not dampen criticism of Eisner. In March 2004, he was forced to step down as chairman when 43 percent of the shareholders voted against his reappointment. Under pressure, the board then voted to split the roles of chairman and chief executive. This move, however, still did not placate the shareholders, particularly as the new chairman voted in, George Mitchell, was rejected by 24 per cent of the shareholders. Mitchell, former Senate majority leader in the US Congress, had been a director of companies associated with poor corporate governance, including Xerox, where accusations of manipulating financial results led to six officials paying $22 million in fines. CalPERS, the California public pension fund and a Disney shareholder, called for Mitchell's resignation.

Roy Disney resigned from the board in 2004, but as a substantial shareholder, he has been vocal in a 'Save Disney' campaign. Throughout the upheaval, Disney directors have been stalwart in their defence of Eisner's management. In 2004, he promised to increase profit growth by impressive figures of 30 per cent, and could point to the fact that core businesses were doing well: ABC was gaining ground on its rivals, and box office takings were rising. However, shareholders, it has become apparent, are interested in more than just seeing rising share price. As one global corporate governance adviser has said of the directors: 'They're suddenly going to have to prove publicly they do pay attention to ownership issues. Whether the stock price is going up or down in the short term is not the issue at Disney. The issue is that too much power is accumulated in the hands of one individual' (Wine, 5 March 2004). The Disney board, packed as it was with friends and supporters of Eisner, offered little prospect of proper oversight. ABC's founder, reflecting on the current situation at Disney, has said: 'Good outside directors will always try to do what's good for the company. Management directors are always tempted to do what's good for themselves' (Parkes et al., 2002).

In 2005, the board announced that Eisner would step down as CEO, and that Robert Iger, chief operating officer (COO) and preferred candidate of Eisner, was the unanimous choice of the board for the post of CEO. Roy Disney and another former director, Stanley Gold, launched legal proceedings against the Disney directors, claiming that the choice of Iger was a foregone conclusion and that no proper selection process had taken place.

Sources: Parkes, C., Grimes, C. and Burt, T. 'The fairytale may end in tears as Eisner's Magic Kingdom shows signs of crumbling', Financial Times, 24 September 2002; Burt, T. 'Disney banks on its mouse to roar again', Financial Times, 15 November 2003; Burt, T. 'Disney in boardroom shake-up', Financial Times, 8 January 2004; Burt, T. and Parkes, C. 'A "resounding victory" for shareholders', Financial Times, 5 March 2004; Wine, R. 'Rise of the corporate crusaders', Financial Times, 5 March 2004; Burt, T., 'Calm amid the storm: despite a bruising year, Eisner remains sure of his strategy', Financial Times, 8 November 2004; Gapper, J., 'A tale of intrigue at the court of Disney's king', Financial Times, 28 February 2005; Parkes, C., 'Legal challenge to Disney board', Financial Times, 10 May 2005.

Case questions

What were the corporate governance problems at Disney?
To what extent have they been solved?

@ Disney's corporate website is at http://corporate.disney.go.com
@ Disney's main website is www.disney.co.uk