MICHAEL EISNER AND HIS REIGN AT DISNEY

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CASE DESCRIPTION

Topics addressed in this case include management conflict, corporate governance, shareholder value, and CEO succession. It may be used in an undergraduate, upper-level classroom, and is particularly appropriate for a capstone course in strategic management. It will also work well in any number of graduate business courses, including general management, leadership , and organizational behavior. Prerequisites for this case include some understanding of prevailing corporate governance topics, as well as familiarity with The Walt Disney Company's diversified portfolio of businesses. As a result, no outside readings should be necessary to understand the case, but some outside research will be necessary in order to address the assigned questions. The case should prove to be an easy read, taking no more than 20 to 30 minutes and then allowing 1 ½ to 2 hours to address the questions that follow.

CASE SYNOPSIS

This is a story of the triumphs and challenges of one of the most notable executives in corporate American history, Disney Chairman and CEO Michael Eisner. The purpose of this case is to highlight the impact of corporate governance from a shareholder perspective. In particular, two problems are addressed – (i) Disney's reputation for weak governance, whether justified or not, and (ii) dissention among the top ranks of the organization. While it is difficult to determine which came first, the case shows how each of these issues perpetuates the other, and that removing the source may be the only way to recover. As CEO, Michael Eisner was blamed for both, and thus the board was divided into two camps. There were those who supported Eisner and his actions over the years and those who did not. The question remained as to which side would prevail.

The case begins with a description of the situation facing Eisner at the close of 2003. Two long-standing Disney board members had called for his resignation from both positions, in letters rife with criticism of Eisner and his management team. Eisner's many options are presented and revisited later in the case.

In order to help the reader analyze Eisner's situation, the case provides a brief history of The Walt Disney Company, as well as biographical descriptions of the CEO and the two dissenting *board members, Roy Disney and Stanley Gold. Coverage includes company milestones under Eisner's leadership, and comparisons are made between the company's financial performance and Eisner's highly criticized compensation package. We then describe the conflict that arose between the parties and offer some discussion of the governance practices that come under attack in the letters.*

As there are usually two sides to every story, voices in favor of Eisner's management are also heard. The case then discusses what transpired as shareholders met and voted on a key governance issue with clear implications for the future – both for Eisner and for the company and its shareholders.

EISNER'S SITUATION

At the start of the Christmas season in 2003, Michael Eisner had more to think about than yuletide treasures. Roy E. Disney, founder Walt Disney's nephew, and his financial advisor Stanley Gold, had called for Eisner's replacement as both CEO and Chairman of the Board. After 20 years of managing the entertainment giant, Eisner had to make a decision that would affect not only the world's largest entertainment company, but his own destiny as well. Given the reasons that Mr. Disney and Mr. Gold allege for his ouster, should he leave, either by resigning or retiring? Alternatively, should he wait for a response from the board regarding his removal? He could also consider resigning one post but not the other, eliminating any concerns associated with filling the dual roles. Might it be time to retire and enjoy the fruits of his labors? There may also be other alternatives available to Eisner, which may serve to minimize dissention at the top of the organization and restore confidence in investors and other stakeholders alike. With the annual shareholder's meeting coming up in March, Michael Eisner and Disney shareholders had less than four months to contemplate their options. Regardless of the decision, this era would prove to be one of strain at The Walt Disney Corporation.

COMPANY OVERVIEW

Disney is a diversified company in the entertainment and leisure industries, operating its own film studios, theme parks, resorts, cruise ships, and retail outlets, all based on the animated Disney characters that have evolved over the past 80 years. It all started in 1923 when 21-year-old Walter Elias Disney boarded the train from Kansas City to Los Angeles with forty dollars and his cartoon about a little girl named Alice. Walt soon found a distributor for the "Alice Comedies" and formed Disney Brothers Cartoon Studio with brother Roy. Walt then created and subsequently gave up the rights to Oswald the Lucky Rabbit but was wiser and more protective with his next creation, Mickey Mouse. Mickey rose to stardom when he appeared in Steamboat Willie, his third cartoon and his first with synchronized sound. The image of the legendary mouse appeared on merchandise from stationery to toothbrushes, giving the Disney brothers an added source of revenue. In 1937, the company, renamed Walt Disney Studio, made its first animated feature film, *Snow White*, followed by *Pinocchio* and *Fantasia*. The move into television came in 1954 with the "Disneyland" anthology series, followed by *The Mickey Mouse Club* in 1955. With success on both the big and small screens, Walt set his sights on amusement parks, opening the first of five Disney theme parks in Anaheim, California, in 1955. In the years to follow, the company was run by Roy O. Disney (Walt died in 1966) and then by an executive team trained by the Disney brothers. The team executed Walt's plans for EPCOT and restructured the film segment to include Touchstone Pictures and Hollywood Pictures. In 1984, new management was brought in, with Michael Eisner as chairman and CEO and Frank Wells as the president and Chief Operating Officer. The duo found ways to maximize Disney's assets and continued to gain the respect of leaders in the industry until Wells' untimely death in 1994. Eisner endured, and the company's portfolio has undergone many changes during his reign. Its Anaheim ties, for example, led to its ownership of the Anaheim Angels, although divested in 2003, and the Mighty Ducks. Most recently, Disney began competing in the network and cable television markets, with stations such as the Disney Channel and Toon Disney, again capitalizing on Disney animation or airing original Disney programs, as well as others, such as Lifetime and A&E, acquired along with the ABC package in 1996. All told, under Eisner's 's leadership, Disney opened Disneyland Paris; expanded the Walt Disney theme parks; acquired Capital Cities/ABC, which included the ABC television network and equity ownership in ESPN, The History Channel, Lifetime, A&E, and E!; developed such leading Internet sites as Disney.com, ESPN.com, ABCNews.com, ABC.com, and Family.com; acquired Miramax Pictures; created Walt Disney Theatrical, which produced *Beauty & the Beast*, *Aida*, and *The Lion King*; developed the Disney Cruise Line; and acquired the Fox Family Channel (now ABC Family). In September, the 11th Disney theme park will open in the world's most populous nation - Hong Kong Disneyland.

THE CHARACTERS IN CONFLICT

Michael Eisner

Michael Eisner was born in Mount Kisco, New York, on March 7, 1942, to an affluent family. His father was a lawyer and investor who had also served as administrator of the Department of Housing and Urban Development, and his mother was the president of a medical research institute. Eisner grew up in his parent's Park Avenue apartment in New York City and graduated from Denison University in 1964 with a B.A. in English literature and theater. In the space of just a few years, Eisner had worked at all three of the then-existing television networks. While still in college, he found summer employment as a page at NBC, and then worked there for a few weeks following graduation as an FCC logging clerk. Eisner then took a position in the Programming Department at CBS, but his dissatisfaction with his job prompted him to send out hundreds of resumes. His only response came from Barry Diller in the programming department at ABC. Diller hired him as Assistant to the National Programming Director, a position Eisner held from 1966 to 1968. Eisner proceeded to advance at ABC, producing his first television special in 1967, and by 1976 he was ABC's Senior Vice President for Prime Time Production and Development, involved with hit programs such as *Happy Days, Welcome Back Kotter*, and *Starsky and Hutch*. ABC moved from its long-held number three position to the number one spot during Eisner's tenure in programming there.

In 1976, Eisner accepted another offer from Barry Diller, who had moved from ABC two years earlier to become Paramount Pictures' Chairman of the Board. Eisner's new position was that of President and Chief Operating Officer at Paramount, where he remained until 1984. Eisner's attention to the creative aspect of filmed entertainment led Paramount to enjoy the same dramatic turnaround that ABC had experienced earlier, as Paramount moved from last to first of the six major studios during that time. A few of the hits produced during those years include *Raiders of the Lost Ark, Marathon Man, Saturday Night Fever, Grease, Terms of Endearment, An Officer and a Gentlemen*, and *Beverly Hills Cop*.

In 1984, at the request of Roy E. Disney, the nephew of Walt Disney, Eisner became Chairman and Chief Executive Officer of The Walt Disney Company. The company at that time was far from an industry leader in film, performing poorly overall and relying primarily on its theme parks. Eisner initiated major strategic changes, and revenues grew from \$1.7 billion to \$25.3 billion in his first ten years at the helm. For example, in early 1996, Disney completed its acquisition of Capital Cities/ABC for \$20 billion, securing Disney's place as one of the most important players in the entertainment industry.

Roy E. Disney

Roy Edward Disney was born January 10, 1930, to Edna and Roy O. Disney, who was Walt Disney's older brother and co-founder of the Disney Company. Roy E. attended Harvard School and Pomona College, from which he graduated in 1951. At the age of 24 he began working at The Walt Disney Company as an assistant editor on the True-Life Adventure film (Schutt, 2004). In the following years, he worked in numerous capacities on Disney productions: camera operator, writer (e.g., the "Zorro" television series in 1957), television program host, film director, and producer of television programs and films (e.g., "The Wonderful World of Disney" and "Fantasia/2000"). He joined the Disney board of directors in 1967 and in 1984 became Vice Chairmen as well as the head of Disney's animation department, which was his first full-time position at Disney.

Roy E. Disney continues to serve as Chairman of the Board of Shamrock Holdings, Inc., a Disney-family business he founded in 1978, which operates in real estate development and investments. He is a member of the board of directors of the United States Committee for UNICEF, as well as a member of the board of trustees of the Ronald McDonald charities, along with other civic organizations. He has received honorary doctorates of Fine Arts from Pomona College, Mercy College, and the California Institute of Arts. He and his wife, Patricia, have four children and thirteen grandchildren.

Stanley Gold

Stanley Gold is a native of Los Angeles and received his A.B. degree from the University of California in L.A. He attained his J.D. from the University of Southern California Law School in 1967 and continued on with postgraduate work at Cambridge University in England. In 1968 he joined a Los Angeles law firm and eventually became a managing partner, practicing primarily in the areas of corporate acquisitions, sales and financing. Mr. Gold is currently President and CEO of Shamrock Holdings, Inc., and Shamrock Capital Advisors. He has served on the Disney board for 15 years, as well as on the boards of several other business and civic organizations, including the University of Southern California.

THE CONFLICT

At the close of the century, The Walt Disney Company had come under intense scrutiny for its governance practices. The Board of Directors, for example, was criticized for insider-domination and lack of independence, ultimately appearing on *Business Week*'s list of Worst Boards two years running. In September 2002, Michael Eisner began traveling the country to meet with powerful investors and shareholder rights groups in an attempt to shore up the company's reputation. He also sought the advice of Ira Millstein, a leading authority on corporate governance, and began making a variety of changes to Disney's governance structure. There is evidence in this case, however, that at least two board members questioned the timing and perhaps the reasons behind these governance initiatives. In fact, there remained a lack of confidence in the CEO himself.

Those Opposed to Eisner

Known for an aggressive management style, Eisner failed to befriend many who crossed his path. Included among those were Roy E. Disney and Stanley P. Gold. In a dramatic public move, on November 30, 2003, Roy E. Disney resigned from the Board. In his resignation letter to Mr. Eisner, he argued that Eisner had lost momentum and creative energy in the past seven years. Specific areas of concern included the low ratings with ABC programming, Eisner's micromanagement style, the building of new theme parks 'on the cheap' and the perceptions among stakeholders that Disney was seeking a quick profit rather than long-term growth, significant loss of key creative employees over the years, weakening partnerships with Pixar and Miramax, and Eisner's refusal to establish a clear succession plan. To Eisner he wrote, "You well know that you and I have had serious differences of opinion about the direction and style of management in the company in recent years. For whatever reason, you have driven a wedge between me and those I work with even to the extent of requiring some of my associates to report my conversations and activities back to you. I find this intolerable." Roy accused Eisner of omitting his name from the ballot for re-election to the board as being in retaliation for Roy's expressed concerns that the CEO was "no longer the best person to run The Walt Disney Company." While saluting Eisner for success during his first 10 years at the company, he stated that the past seven suffered from failed leadership. He concludes as follows: "…it is my sincere belief that it is you who should be leaving and not me. Accordingly, I once again call for your resignation or retirement…"

The next day, Stanley Gold resigned, in a letter to the Board which began as follows: "It is with regret that I resign effective immediately from the Board of Directors of The Walt Disney Co. and second Roy Disney's call for the removal of Michael Eisner as chairman and chief executive." He, too, expressed disgust over the failure to include Roy Disney on the election ballot. While the board had explained that he had reached the expected retirement age, Mr. Gold believed otherwise – that Roy had become increasingly vocal in his criticism of Eisner and his board, and that the omission was an attempt to "squelch dissent by hiding behind the veil of 'good governance'". He questioned the ouster of board members who disagreed with or even criticized Michael Eisner, and objected to Eisner's bonus of $5 million in Disney shares given poor organizational performance. See Table 1 for information on CEO compensation and the company's financial performance for the 20 years under Eisner's leadership.

Issues that may have led to the dissention include a board of directors allegedly packed with cronies or individuals otherwise beholden to Michael Eisner. This lack of independence has manifested itself in several conflicts of interest. For example, Father Leo O'Donovan, currently serving on the board, is President Emeritus of Georgetown University, the alma mater of one of Eisner's sons and recipient of more than $1 million from Eisner. And Reveta Bowers, who served on the Board from 1993 to 2003, runs the school attended by another of his sons. Further, Mrs. Bowers, along with directors Stanley Gold and Raymond Watson, had children employed by The Walt Disney Company within one year of their directorships, and thus were not to be considered independent board members according to the NYSE's new governance recommendations. In 2001, Craig Bowers worked for Disney's internet operations, earning $81,863. Jennifer Gold worked for the consumer products division, earning $85,111. And David Watson worked for Disney Channel, where he earned $152,608.

As evidenced in their full resignation letters, both Disney and Gold also blame Eisner for debauched relationships with both internal and external studio heads. Although The Walt Disney Company acquired Miramax in 1993, Eisner continues to butt heads with founders Bob and Harvey Weinstein, who maintain creative control over the studio. Historically, large budget projects and pay scales had been at the heart of these disagreements. Most recently, however, Eisner refused to distribute Michael Moore's Farenheit 9/11 but did sell the film to the Wiensteins, who then formed a separate company in order to distribute the film. Further, while Eisner claimed that Miramax had been unprofitable, he was not willing to sell the studio back to its original owners. Externally, Eisner is said to have clashed with Pixar Animation Studios CEO Steve Jobs, and in 2004, Pixar walked away from the negotiating table. In particular, the computer animation powerhouse felt that the existing contract -- whereby the two companies co-finance movies, split the profits, and Disney distributes the films in exchange for 12.5 percent of the box office gross ticket sales – is tilted heavily in Disney's favor.

EXHIBIT 1
CEO Compensation and Organizational Performance

	Eisner's Compensation			Organizational Performance				
Year	Salary	Bonus (Cash & or Stock)	Total Compensation	Revenues (in millions)	Net Income (in millions)	Stock Price		
						High	Low	Splits
1984				1,656.0	978.4	67.75	45.62	
1985				2,015.4	173.5	113.50	59.37	
1986				2,470.9	247.3	143.50	31.62	4 for 1 on 3/5
1987				2,876.8	444.7	82.00	44.87	
1988				3,438.2	552.0	68.00	54.25	
1989	750,000	8,839,360	9,589,360	4,594.3	703.3	134.62	65.75	
1990	750,000	10,483,229	11,233,229	4,418.2	824.0	134.50	87.37	
1991	750,000	4,691,543	5,441,543	6,182.4	636.6	127.37	94.00	
1992	764,423	6,694,558	7,458,981	7,504.0	816.7	159.00	32.87	4 for 1 on 5/15
1993	750,000	-	750,000	8,529.2	299.8	47.37	33.75	
1994	750,000	7,268,807	8,018,807	10,055.1	1,110.4	46.62	42.50	
1995	750,000	8,024,707	8,774,707	12,112.1	1,380.1	62.87	46.00	
1996	750,000	7,900,000	8,650,000	18,739.0	1,534.0	73.87	53.37	
1997	750,000	9,900,000	10,650,000	22,473.0	1,886.0	97.62	67.37	
1998	764,423	5,000,000	5,764,423	22,976.0	1,850.0	127.12	23.50	3 for 1 on 7/9
1999	750,000	-	750,000	23,402.0	1,368.0	38.00	23.43	
2000	813,462	8,500,000	9,313,462	25,402.0	920	43.31	27.87	
2001	1,000,000	-	1,000,000	25,256.0	(158.0)	34.50	16.98	
2002	1,000,000	5,000,000	6,000,000	25,360.0	1,236.0	25.00	13.77	
2003	1,000,000	6,250,000	7,313,656	27,061.0	1,267.0	22.56	15.02	
2004	1,000,000	7,250,000	8,307,473	30,752.0	2,345.0	25.50	20.36	

Source: Disney 10-K Filings and Proxy Statements.
[A] Includes category for "other" annual and long-term compensation

Those in Favor of Eisner

The Board of directors responded in support of Michael Eisner, categorically rejecting the requests made by Disney and Gold. In fact, the board credited Michael Eisner with changes in corporate governance that resulted in a board dominated by independent directors, one of which involved renaming the Nominating Committee to what is now the Governance and Nominating Committee. While the process by which directors are named to the board remains the same, the committee is now charged with monitoring Disney's Corporate Governance Guidelines, which was adopted in 1996. The board continues to allow shareholders, as well as the board itself, to nominate candidates deemed qualified. Shareholders must submit their recommendations in writing to the Company's Secretary and must provide confirmation that the nominee is willing to serve. Elections for board membership take place at the annual shareholders' meeting, at which time directors are elected or re-elected for one-year terms. Shareholders are granted one vote for each board candidate. This is in contrast to cumulative voting, whereby a shareholder is given a number of votes consistent with the number of candidates on the roster and then has the option of casting all of his or her votes for a single director or apportioning the votes among the candidates. When voting is cumulative, minority stockholders could gain representation on the board, even at the objection of powerful investors. Without cumulative voting, Disney's board is likely to persist as it was assembled under Eisner's leadership.

The board cited Eisner's commitment to governance and transparency, which has led to the company exceeding the corporate governance guidelines set by the NYSE. A guest column, written by independent producer David Kirkpatrick, appeared in Variety magazine and began with, "I am writing today to celebrate a man's creativity and managerial skill. This man has gotten a bit banged up lately, and I am saddened by all the cascading public and media assassination of Michael Eisner, especially when so much of it has been coming from our own creative community." Kirkpatrick praised the Eisner's accomplishments while underscoring his mistreatment at the hands of Stanley Gold and Roy Disney.

Shortly before the annual meeting, the Board communicated with the company's shareholders.

> *You may have heard recently about the attack being waged by two former directors against the chief executive officer and certain members of the Board of Directors of your company. You should be disturbed by this attack, which comes at a time when your company is achieving very positive results. We, as the continuing directors of the company, want to provide you with some perspective on Disney's performance and to set the record straight . . . shareholders have every reason to question the actions of Stanley Gold and Roy Disney and to wonder how the best interests of all shareholders are served*

by trying to distract the Board and management at a time when all energy and resources should be devoted to forwarding the company's momentum. You should be concerned that Messrs. Gold and Disney are putting their own interest ahead of yours.

At this crucial time, with Eisner's future hanging in the balance, the board called to the attention of the Disney shareholders the many accomplishments of the company and its current management team and also used its annual letter as a forum to address the criticisms brought forth by Mr. Disney and Mr. Gold. The board of directors, which includes Michael Eisner, held that both men completely ignored the impressive long-term performance record of their CEO, who, as one of the company's largest individual shareholders, is fundamentally focused on the shareholders' interests.

NOTHING LASTS FOREVER

The issue of role duality was certainly a key one at the shareholders' meeting. The meeting took place in Philadelphia on March 3, 2004, followed by an announcement from the Board of Directors that it would be separating the positions of CEO and Chairman in response to the shareholder vote. While the Board stated that it continued to have complete confidence in Mr. Eisner and the senior management team, it formalized the division of CEO and Chairman responsibilities in April, created the stand-alone position of Chairman of the Board, and unanimously elected former U.S. Senator George Mitchell to serve in that non-executive capacity. The new chairman vowed to work diligently to fulfill his responsibilities and stated that Eisner, the continuing CEO, would have full support from the board and would have the same authority to manage the operations of the company as he had previously held.

While the two may have worked well together, their time together at the helm will be brief. On September 9, Michael Eisner submitted a letter to the Disney board, indicating his plans to retire as CEO when the term of his employment agreement concludes on September 30, 2006. He will be replaced by Robert Iger, Disney's President and Chief Operating Officer since 2000. Upon resigning, Eisner offered the following sentiment:

It is with a considerable amount of satisfaction and even pride that I approach the end of my term as CEO of this company. By every financial and creative measure, Disney is performing at its peak. I have enjoyed virtually every moment of my tenure and want to express my appreciation to the phenomenal colleagues with whom I have been privileged to work. I believe Disney is now poised for its brightest days in the years ahead under the able and insightful leadership of Bob, who has not only the qualities to succeed, but also has a keen sense of the Disney brand and how to maintain its leadership position and grow it on a worldwide scale.

ASSIGNMENT QUESTIONS

1. Who served on Disney's board of directors in 2003? Describe the characteristics and backgrounds of each board member.

2. Why do you suppose the Board of Directors was so unwavering in its support of Michael Eisner?

3. Evaluate the options that were available to Eisner. What factors do you think he considered when weighing his alternatives?

4. Compare Michael Eisner's current compensation package to the company's recent performance. Was his pay justified? Why or why not? In answering this question, consider the following:

   a. How have other CEO's been compensated in relation to their company's performance? Look at CEO's of competitor companies or of similarly diversified firms.
   b. Based on your finding for (a) above, would you say that there is some minimum level of compensation that is necessary to attract and retain high-quality corporate leadership?

5. Evaluate the conflict among the board members from a shareholder's perspective. What impact might the conflict have on investor confidence?

6. Evaluate the conflict among the board members from a stakeholder perspective. What impact might the conflict have on claimants other than the shareholders?

7. Describe the leadership characteristics of Robert Iger, Michael Eisner's successor. How might certain stakeholders view Iger, as compared to the long-reigning Eisner? (HINT: Consider relationships with the Walt Disney Company that may have deteriorated during Eisner's tenure).

8. Roy Disney and Stanley Gold criticized Michael Eisner for his lack of a clear succession plan. Under Iger, has one been established? If so, what does it state?

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