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Fading Magic: For Disney's Eisner, Years Of Corporate Sparring Catch Up; Chief of Entertainment Giant Faces a Day of Reckoning; 'Too Little, Too Late'; In Talks on Giving Up a Title

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Abstract (Article Summary)

Disney's board has so far stood behind Mr. [Michael Eisner]. People familiar with the board's thinking say members want time to evaluate the results of the vote to decipher whether it represents frustration with Disney's governance, its overall performance or personal animosity toward Mr. Eisner. Even if a large number of Disney shareholders oppose Mr. Eisner's board re-election this week, it isn't likely that the board will make a move on Mr. Eisner immediately, at least in part because it doesn't want to signal instability in the face of the Comcast bid.

The immediate source of Mr. Eisner's troubles was his and the board's decision in November to enforce a mandatory retirement policy that would force out Director Roy E. Disney, nephew of the late Walt Disney. Mr. Disney, 74, turned the tables by quitting as both a board member and an executive, and issuing a stinging call for Mr. Eisner to resign as well. Stanley Gold, Mr. Disney's longtime business partner, subsequently quit the board as well. Together they have waged a bitter three-month campaign, urging Disney shareholders to withhold support from Mr. Eisner and three other directors at this week's meeting.

Properly understood, Mr. Eisner's current predicament is actually the culmination of nearly a decade of mounting unease with his reign. Distinctive even in an era of imperial CEOs, Mr. Eisner made the vast Disney entertainment empire the instrument of his own will, lasering in on the tiniest details to fix problems he saw in Disney's animated movies, Broadway plays or theme parks. For years after arriving in 1984, that formula worked. Mr. Eisner had the charisma to jump-start Disney's sleepy culture and the wisdom to surround himself with convention-busting creative forces such as former studio chief Jeffrey Katzenberg, Miramax Films Co-Chairman Harvey Weinstein and Pixar's Mr. [Steve Jobs].

Full Text (1623 words)

Seven years ago, about 12,000 Walt Disney Co. shareholders jammed a hockey rink in Anaheim, Calif., to dress down the company's longtime chairman and chief executive, Michael Eisner. A long parade of angry Disney holders decried the multimillion-dollar severance package awarded to Michael Ovitz after a 14-month stint as company president, the lavish 10-year contract Mr. Eisner had just been given, and a board of directors that corporate-governance experts complained was too beholden to Mr. Eisner.

Mr. Eisner defended his board, explained his pay and issued a testy apology for the Ovitz debacle: "Be angry. Be annoyed. God knows I am, but there's nothing I can do about it now." After fielding criticism for a couple of hours, a visibly irritated Mr. Eisner exited the stage with questioners still lined up at microphones around the arena.

It appeared that Mr. Eisner, one of the business world's great escape artists, had sidestepped another of the seemingly endless controversies that have dogged him for the past decade. Over the next few years, the now 61-year-old chairman and chief executive dodged other bullets that might have felled less fearsome CEOs: a tumbling stock price and falling earnings; a $250 million payout to a former executive he admitted to calling a "little midget"; an exodus of top executives who couldn't stomach his style; the payment of at least $1 billion too much to acquire a struggling cable-TV network.

This week, however, the accumulated bill for Mr. Eisner's past battles and autocratic reign is coming due. And this time, it's increasingly likely he will have to surrender at least his chairman's title -- if not actually set a date for his departure from Disney.

Mr. Eisner and Disney's board face a storm of shareholder outrage at the company's annual meeting in Philadelphia on Wednesday. By Disney's own admission, well over 30% of voting shareholders, and perhaps more, are likely to withhold support from Mr. Eisner, the company's leader since 1984.

No matter how Disney spins the outcome of Wednesday's vote, it will represent an embarrassing indictment of Mr. Eisner's recent leadership of the beloved entertainment giant. And though few are expecting Mr. Eisner to immediately lose his job, it appears unlikely that Mr. Eisner can emerge from this battle without at least seeing his power curbed. According to people familiar with the matter, board members have been talking with each other, and with Mr. Eisner, about the possibility of removing his chairman's title. Mr. Eisner has indicated he would probably go along with such a plan, according to people familiar with the matter.

If the vote is even worse than expected, another alternative would be to announce that Mr. Eisner is stepping down later -- at the end of the year, perhaps -- and launch an external search for a new CEO. In the process, Disney would tell investors that the chairman and chief executive jobs would be split from that point forward, a move that governance experts and activist investors have long sought. Disney's board could also fire Mr. Eisner outright, although making such a change amid Comcast Corp.'s unsolicited bid for Disney may be risky.

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Disney's earnings, while still below 1999 levels, have stabilized, and its stock price is up, though it was still trading at the level of six years ago until Comcast revealed its takeover offer.

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The dissidents didn't initially get much traction, but their efforts gained momentum when other Eisner opponents used the moment for their own purposes. Pixar Animation Studios Chief Executive Steve Jobs, for example, pulled the plug on important negotiations to extend the lucrative deal under which Disney distributed and co-financed a string of Pixar hits such as "Finding Nemo." Then Comcast complicated the situation further in mid-February by making its unsolicited all-stock takeover offer, which Disney has rejected.

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That same boldness, however, provided ammunition for his critics. His rich options-laden contracts became a lightning rod in the debate over executive compensation. His interactions with Disney's creative forces backfired when some of them felt he was meddling in their business. Mr. Eisner became a target for corporate-governance reformers when investors realized that his board was packed with cronies.

"There's no question in my mind but that this [anger] has built up over a number of years," says Christy Wood, senior investment officer for global equities at the California Public Employees' Retirement System. The influential public pension fund last week said it no longer had confidence in Mr. Eisner, and many other pension funds soon followed suit. Mr. Eisner "has had 20 years -- and the last 10 have been subpar," Ms. Wood says, adding: "He needs to be held accountable for his record as a whole -- which is poor."

Demons that Mr. Eisner had seemingly dispatched long ago are back to attack him, much like the marauding undersea skeletons in Disney's 2003 movie hit "Pirates of the Caribbean: The Curse of the Black Pearl." A Delaware Chancery Court judge chose last week, for example, to unseal hundreds of pages of court documents that paint a damning picture of Mr. Eisner's seemingly unilateral hiring and firing of Mr. Ovitz. So while Mr. Eisner's handlers attempt to portray him as a sound leader for Disney's future, he is being pilloried with unflattering details of an eight-year-old skirmish in his executive suite.

Such ugly reminders of the past are overshadowing the fact that Mr. Eisner has given his critics most of what they want, after stubbornly defying them for years. During the past two years, Disney made significant concessions to the corporate-governance experts. It has reduced the size of its board, devised tougher rules for director independence and installed new and more independent board members. Meanwhile, the company's performance is on the upswing for the first time since the mid-1990s. Its earnings are stabilized and its stock price is up.

Mr. Eisner soared through Hollywood for most of the last 40 years. Starting his career in television, he worked at both NBC and CBS before finding a long-term home at ABC. There the often-disheveled young executive ran daytime programming before tackling prime time and launching hits such as "Happy Days."

He moved to Paramount Pictures in 1976 to work with his longtime friend Barry Diller. Soon the studio was in the midst of a glorious run, cranking out iconic hits such as "Saturday Night Fever" and "Raiders of the Lost Ark."

In 1984, Mr. Eisner was passed over for a promotion at Paramount, an event that, in his book "Work in Progress," he describes as "my first important brush with the fact that life isn't always fair." But at the same time, he was being courted by Disney, the entertainment company that had fallen into disrepair in the 18 years since its founder's death and was being circled by corporate raiders. Boosted in part by the support of Roy Disney and Stanley Gold, Mr. Eisner became the company's chairman and chief executive, as part of a package deal in which former Warner Bros. executive Frank Wells became president. Mr. Eisner also brought along other hungry young turks, including Mr. Katzenberg.

Over the next 10 years, Disney's earnings and stock price skyrocketed and Mr. Eisner was anointed as a corporate superstar. Some of the formula was simple: Disney steadily raised theme-park prices to wring more out of the popular vacation destinations. And it exploited the company's library of animated classics, such as "Snow White and the Seven Dwarfs," in the new videocassette format that was just then taking off.

The company also enjoyed a creative renaissance. The movie studio produced a new generation of classic animated fare, a run that culminated with 1994's "The Lion King." It built new parks in places such as Japan and France. Disney bought a little independent film company called Miramax and gave it the financial support to dominate the art-house film world. It made a deal to finance and distribute the computer-animated movies of the then-fledgling Pixar.

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