Destructive Corporate Leadership and Board Loyalty Bias: A case study of Michael Eisner's long tenure at Disney Corporation

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Introduction

In this paper we argue that the widely-held public corporation, characterised by "strong managers and weak owners" (Roe, 1994) is exposed to what Padilla, *et al* (2007) identify as "destructive leadership" risks which, due to board loyalty biases, current corporate governance codes appear to do little to mitigate. As Padilla *et al* argue for destructive leadership to take hold and to generate extreme negative outcomes there typically needs to be a "toxic triangle" consisting of "destructive leaders, susceptible followers and conducive environments". All three of these elements are present in the widely-held corporation and hence it ought not to be too surprising therefore to regularly observe negative corporate outcomes such as value destroying takeovers, financial fraud and delusional business strategies initiated and driven by over-mighty and hubristic CEOs. We illustrate these issues via an examination of Michael Eisner´s long tenure as Disney Corporation´s CEO. The reason why we choose to focus on the Disney case rather than on one of the more obvious and highly publicised cases of destructive (and fraudulent) leadership, such as Enron or WorldCom, is because these latter instances of corporate governance failure are, thankfully, highly unusual - indeed quite rare. So Eisner is the acceptable, almost glorified, face of corporate waste and self-awareness, if not aggrandisement.

In contrast, we believe that the Disney case, whilst not involving any explicitly fraudulent behaviour, does illustrate the potential for massive destruction of shareholder value stemming from behaviour that is far more common and widespread amongst corporate elites and board members. The position of CEO in a widely-held firm bestows on the holder immense authority, control over resources and over the careers of his/her subordinates; in short, the CEO has immense power. Unfortunately, power corrupts; that is, it produces psychological and behavioural changes that greatly reinforce the high degree of managerial entrenchment characteristic of many widely held firms. These features encourage narcissistic and charismatic CEOs to turn into "destructive leaders" through their ability to subvert and corrupt subordinates and to override other organisational and external safeguards. We argue that such individuals frequently abuse their incumbency to cultivate susceptible followers and to create the necessary conducive environment via their exploitation of a pronounced and inappropriate "loyalty bias". This, we argue, results in even formally "independent" boards of directors displaying excessive loyalty towards their CEO's long after it has become apparent to outsiders that the incumbent CEO is destroying corporate value and ought to be replaced. We examine the interaction between the structural characteristics of the widely-held public corporation, the governance problems this generates and the social-psychological implications that this situation creates for both incumbent CEO's and the boards of directors charged with supervising and controlling CEO behaviour.

It is our contention that this situation undermines corporate governance mechanisms ostensively designed to control and replace CEO's that are no longer capable of acting in shareholder interests. What remains is an illusion of shareholder control against a reality a personal fiefdom. Our analysis of Michael Eisner's long – and ultimately disastrous - tenure at Disney corporation provides evidence consistent with our hypothesis that the excessive power that goes with the position of CEO can result in destructive outcomes.

Whilst existing corporate governance mechanisms and the market for corporate control appear to eventually act of prevent the vast majority of widely held firms from the very worst consequences of "destructive leadership", this is often in response to poor corporate outcomes, i.e., after the destruction of significant corporate value. Hence, we suggest changes in corporate governance that institutionalise (legitimate) dissent and thereby mitigate CEO hubristic and destructive tendencies and/or which facilitate the speedy removal of CEO's that succumb to such pressures.

The paper is structured as follows. We first examine the concept of "destructive leadership", the components of the "toxic triangle" and the psychological processes associated with power holders such as CEOs. This is followed by an examination of the characteristics of the public corporation. As noted earlier, liquid capital markets and widely-held ownership has overwhelmingly produced organisations characterised by strong managers and weak owners. Though a high degree of managerial discretion is necessary to best exploit specialist managerial talent, recent corporate governance scandals make it self-evident that executive good behaviour cannot always be guaranteed as these benefits also create incentives and opportunities for destructive managers to act in ways contrary to owner's interests. The Eisner/Disney case is then described and analysed to illustrate how this institutional set-up is capable of enabling an entrenched and hubristic CEO to dominate a board of directors and to hold onto office even after a succession of disappointing years of corporate performance, declining share prices and several widely-publicised fall-outs with other senior executives and key suppliers. Though the case indicates that eventually Eisner was ousted this only happened after much corporate value had been destroyed and necessitated a vigorous campaign by key disgruntled shareholders and a hostile takeover attempt by Comcast.

The case first examines the factors that led to Eisner's entrenchment, namely how after being widely credited with "saving Disney" and being generously rewarded for increases in shareholder wealth, Eisner was able to create an acquiescent and uncritically loyal board that failed to adequately monitor or control many critical decisions. The case examines the failure of the board to critically evaluate his performance. We argue that the acquiescent Disney board encouraged delusional thinking and hubris and led to several expensive strategic errors being made and which generated much bad publicity in regard to Eisner's very generous compensation package and his fall-outs with key stakeholders. The case illustrates that whilst managerial exploitation of structural and loyalty biases does occur and could persist for some considerable time, it will nevertheless tend to be self-limiting if not accompanied by good performance. Loyalty in Hirschman's view "holds exit at bay and activates voice" (Hirschman, 1970, pp 78). Nor need this source of "bias" be interpreted as irrational in the sense of serving no valid purpose for as Hirschman points out (1970, pp 79)

> "*loyalty, far from being irrational, can serve the socially useful purpose of preventing deterioration from being cumulative, as it soften does when there is no barrier to exit*."

That is loyalty can prevent a stampede to the door frustrating any constructive attempt to raise competitive performance.

In the Disney case, Eisner's apparent entrenchment delayed but did not prevent his eventual loss of authority stemming from a long and destructive period of corporate performance. Finally, we suggest mechanisms and changes to corporate governance that may help mitigate these features.

The Toxic Triangle of Destructive Leadership

It has long been known that even highly ethical and egalitarian individuals upon being put in a position of power over others quickly succumb to the "metamorphic effects of power" (Kipnis, 1976); that is, they "become puffed up with their own importance" and they begin to view themselves as superior to those they have control over. These psychological changes tend to be reinforced as subordinates with different views exit or keep quite whilst those with ambitions for preferment and resources become obsequious and provide uncritical support for whatever the leader proposes. As Lord Acton famously observed "power tends to corrupt and absolute power corrupts absolutely" and therefore it ought not to be surprising that significant behavioural and ethical changes tend to occur with the exercise of power. Such changes in psychology and behaviour, however, tend to be fairly limited in the case of egalitarian individuals, those that see themselves as simply temporary holders of power and who seek to involve subordinates in decision making and are not undermined by subordinates speaking their minds and openly disagreeing with them. Unfortunately, such leaders tend to be relatively rare since positions of power in organisations overwhelmingly attract "narcissistic" and apparently "charismatic" individuals with psychological needs to have power over others (bullies) and hence the experience of power simply greatly reinforces these pre-existing socio-pathological and behavioural tendencies (Kets de Vries, 1991; Padilla *et al*, 2007). Thus, without doubt, it would seem that a sensible default hypothesis is simply to assume that all leaders are potential monsters and manipulators, prone to delusional thinking and likely to abuse their power at every opportunity. As Kahnehman and Lovallo (1993) have noted elsewhere

> "*managers do not deny the possibility of failure, their idealised self-image is not a gambler but a prudent and determined agent, who is in control of both people and events*".

Hence great managers (like Eisner perhaps) make history and are not simply subject to its laws. If it is indeed the case that the primary characteristics of individuals that seek to be leaders are those most closely associated with charismatic sociopaths and that the experience of power only serves to further corrupt their already deficient ethical compasses and behaviour, why is it that relatively few organisations led by such people appear to suffer extreme negative outcomes? It seems that the answer to this apparent paradox lies in the fact that relatively few organisations in Western, Liberal democracies provide leaders with untrammelled power to do as they please. Most organisations have a variety of internal checks and balances, reporting mechanisms and avenues for legitimate dissent, as well as the existence of external economic pressures, labour mobility, professional associations, Unions, a free press and legal safeguards. All of which typically provide limits on the behaviour and the damage caused by destructive leaders. Indeed, as the "Toxic Triangle" framework developed by Padilla *et al* (2007) shown in Figure 1 suggests, the extreme negative outcomes associated with destructive leadership also require not only the presence of destructive leaders but also "susceptible followers" and "conducive environments". Unfortunately, however, unprincipled charismatic leaders that control the employment, pay and promotion prospects of subordinates, know that they can normally rely on a large body of susceptible – i.e., fearful – followers. Moreover, as we shall discuss in more detail in relation to corporate governance, all humans appear to have a strong and innate "loyalty bias" towards any person in a position of authority. The experiments undertaken by Milgram (1974), for example clearly indicate that most people seem prepared to obey orders from authority figures that are clearly in conflict with their professed moral codes and legal responsibilities. As Morck (2008) explains, even individuals such as independent directors that have nothing to fear from disobeying the requests of an authority figure such as the CEO appear no more immune to this desire to obey:

> "*Misplaced loyalty lies at the heart of virtually every recent scandal in corporate governance. Corporate officers and directors, who should have known better, put loyalty to a dynamic Chief Executive Officer above duty to shareholders and obedience to the law. The officers and directors of Enron, Worldcom, Hollinger, and almost every other allegedly misgoverned firm could have asked questions, demanded answers, and blown whistles, but did not. Ultimately they sacrificed their whole careers and reputations on the pyres of their CEOs.*" (p 180)

As we shall discuss below, the widely-held firm with its typically deeply entrenched senior management, can often provide the third leg of the toxic triangle, a conducive environment for the development of destructive leadership and its baleful consequences.

Conformity without coercion

It may well be that tyrannical leaders can induce mindless discipleship amongst timorous subordinates. But even in the absence of coercion it is clear conformity has its own allure. So even in the absence of oppressive or destructive leadership it its clear there is a demand from below for leadership of some kind and perhaps even of a rather self serving kind. Timur Kuran (1995) has pointed out the ubiquity of fissures between private truths and their public expression in social life. This induces a social falsification of preferences in favour of a quiet life or social acceptance. To achieve these goods most of us enjoy requires us to trade off our *intrinsic* utility with any consequent damage to my social utility. As Kuran puts it when "in Rome *appear* to do as the Romans do." This is the phenomena of preference falsification which Kuran sees as pervasive in public life.

So I resent my neighbour smoking out the window but tell him "I don't mind" rather than cause a scene. Such obfuscations are most probably little more than good manners but the social consequences of preference falsification can be far more dramatic. Kuran considers for example the Hindhu caste system which is kept in place not largely by coercion but by more low key social pressures and conventions.

Kuran further separates out a third strand of utility derives a third strand of utility which derives from being "the real me" he denotes *expressive* utility, I may be perfectly aware that my anti smoking/clean air stand isolates me socially but this may make me even more determined not to "live a lie" and show my true health conscious colours. Crucially to Kuran's contribution is the insight that it is the sum of all three elements of utility, intrinsic, reputational and expressive that drives expressed public opinion and chosen outcomes. Kuran shows how this reality explains the sudden implosion of the Russian Federation states, like Czechoslovakia in 1989. Only a brave few, like Victor Havel, were endowed with sufficient expressive utility to publicly condemn a ruling political elite almost certain to crush them. The reputational cost of openly opposing Communist control kept most in line until the jackhammers were finally demolishing the Wall.

Crucially a few articulate "preference entrepreneurs" may pave the way for the more timid, or simply less deeply thought majority, who while quietly resenting the crass thuggery of the prevailing elite find it easier to just make the best of a bad job. This makes the switch of preferences currently being falsified constantly subject to sudden reversal. This sudden implosion is particularly marked in the unravelling of Eisner's reign at Disney.

One very obvious reason why major corporations do not manage succession more smoothly is simply the cushion of profits created by a dominant market position means that they do not have to. In striking passage of his landmark work Albert Hirschman asks (1970, pages 5-6) why Hamadrayas baboons, with all their personal weaknesses, can manage the transition from ageing dominant male to emergent upstart successor so well why can't human polities do a better job. The reason is the logic of the Jungle dictates baboons must work smart or starve. Hirschman states

"*Most human societies are marked by the existence of a surplus above subsistence. The counterpart of this surplus is society's ability to take considerable deterioration in its stride. A a lower level of performance, which would mean disaster for baboons, merely causes discomfort at least initially, to humans*."

In this perverse sense destructive leaders need to find successful companies to attach themselves to and dissipate the surplus of. In this view one of the costs of having successful, market-leading, corporations is the creation of rents awaiting dissipation by non value-adding struggles for access to them. Corporate profit creates its own rent-seeking consumers as “there’s a slacker born every minute” (Hirschman, 1970, p.15) and as will see Michael Eisner certainly enjoyed his share of slack, perks and the trappings of high corporate office.

Choosing between exit and being a loyal voice

So if corporate can never be eliminated how might it be controlled at least to he point of insuring corporate survival. Two substitutive mechanisms suggest themselves (Hirschman, 1970). The first, exit, selling up your shares is the standard fare of financial economics texts on corporate valuation, the discounted pay-offs the company offers the investor must justify the price he is expected to acquire the corporation’s stock. The second voice is less commonly discussed in Finance literature. Perhaps simply because economists regard this as political theorists territory. For “Voice is political action par excellance” as Hischman (1970, p 16) expresses it. If this light Mark Roe’s “political theory” of corporate finance nicely complements the standard finance theory taught to generations of business school undergraduates.

Being loyal in this context might then be seen interpreted as choosing voice even when it is in my own self interest to exit. It may be in my self interest to abandon an elderly, befuddled relative to a care home but may of us would surely choose not to and understand others who make similar choices. So what tends to induce such loyalty? One factor is the belief the concerns that are voiced are likely be acted upon. So it is a characteristic of Hollywood moguls that they appear in gossip columns and magazines more than upholstery or mining executives. Rumours of unjustified arrogance, even though unsourced, may be seen as potentially very damaging to it’s target with industry circles. Certainly failings as a Hollywood executive are unusually public. Who for example would want to known as having commissioned *Waterworld?* In such an industry at least *appearing* loyal, in the sense of being less likely to exit a relationship than self interest suggests is rational, may well be a credible strategy. But feigning loyalty may not be that easy and George Akerlof has pointed out the true of the close knit relation between a Studio CEO and his second in command. Given the presence of such strong, if misplaced, loyalties abuse of power by the incumbent CEO may become far more likely.

Figure 2 presents the value of voice, as an exit retardant, over some range of employee discontent. At some point even the most loyal servant will feel that their employer or immediate superior has broken an implicit “psychological contract” established either before joining the corporation’s employ or during some initial settling in stage (Tunley and Feldman, 1999). But between the commencement of initial worries and the final separating of the ways loyalty can help to retain employees who would otherwise defect.

A very similar conclusion may be made with regard to the impact of a strong coherent, if far from controlling, family stake-holding within Disney. Roy and Elizabeth Disney and their representatives on the board had more than simply money at stake and cared deeply about maintaining the iconic presence of Walt Disney and his empire in American Such books teach it is the *marginal* investor who determines the company’s cost of capital, since for them a $100 decline in box office revenues is enough to make them replace Disney with Universal Studios in their portfolio. So it is the *marginal* investor who determines the cost of capital in this view. But it appears to be *loyal, intra marginal* investors who determine the deployment and control of capital resources.

Of course retaining the loyalty of intra marginal loyal customers whose large consumer surplus makes reluctant to exit very much depends on the lack of availability of adequate replacements trading partners. As we shall see the emergence of Pixar as a stand alone animator was crucial to the erosion of loyalty to Eisner.

The Governance of the Widely-held Corporation: strong managers, weak owners

The ability to obtain equity finance from the general public and the freedom this providesis the latter to diversify risk and trade their ownership claims via a well regulated public market has long been one of the defining characteristics and major strengths of the Anglo-US corporate system. It has of course long been known (Berle and Means, 1932) that the separation of ownership from control this implies is not an unalloyed benefit to shareholders. The widely-held structure involves a trade-off, whilst it providing managers with sufficient power and discretion to generate wealth from their control over corporate resources, such discretion can and often is abused. That is, widely-held corporations are necessarily exposed to significant agency risks in relation to ensuring that management make decisions consistent with the interests of their many and diverse shareholders. Furthermore, due to the public good characteristics of monitoring managerial behaviour, individual shareholders of widely-held corporations have incentives to "free-ride" and this has produced, in Roe's (1994) words, a corporate governance system characterised by "strong managers and weak owners". Indeed, theorising and finding practical solutions to this so-called "agency problem" has long been central to the endeavours of many academics and corporate governance reformers. The agency problem has been the primary rationale for the current extensive requirements for corporations to disclose audited financial results and to adhere to governance codes requiring independent boards to monitor managerial actions and to provide financial incentives designed to align manager and shareholder interests.

Generally the US corporate sector has been successful in generating wealth for its stakeholders and relatively few firms tend to become embroiled in corporate governance scandals whilst a significant proportion of CEO's of poorly performing firms are dismissed or lose their positions subsequent to corporate restructuring or takeovers. This suggests that investors can usually rely upon institutional features such as external product and capital market pressures and compliance with Securities regulations, Corporate Law, governance codes, information disclosure and audit requirements, to effectively constrain managerial behaviour.

Nevertheless, it is also clear that despite improvements in corporate governance codes and regulatory oversight becoming more extensive, managerial misbehaviour and the consequent losses to shareholders do occur. Moreover, financial scandals are overwhelmingly associated with the presence of a "charismatic" CEO and a team of unscrupulous senior managers adept at circumventing and subverting whatever governance solutions are put in place. For example, though executive pay is now determined by independent board sub-committees, the concerns that led to this institutional initiative - namely that executives were receiving excessive increases in pay unrelated to improvements in firm performance – have in fact become more widespread as executive compensation has continued its seemingly ever upward trajectory. Indeed, for many scholars and commentators managerial power and their control over the board of directors have ensured that initiatives such as performance related pay and the use of board subcommittees can be more realistically seen as a manifestation of the agency problem rather than, as originally intended, a solution to it (Bebchuk and Fried, 2004). Excessive CEO pay trumpets managerial abuse in this perspective as opposed to rewarding excellent performance.

Loyalty Bias and Corporate Governance

As we have indicated, the central agency problem addressed by financial economists and corporate governance researchers (e.g., Jensen and Meckling, 1976; Fama and Jensen, 1983a and 1983b), focuses on how to ensure that managers (agents) act in the interests of shareholders (principals). This agency problem, which Morck (2008) refers to as a "Type I" agency problem[1], can potentially be very costly when because of poor monitoring and divergent interests executives are able to pursue courses of action that damage shareholder wealth. Actions by management that are detrimental to shareholder interests are an ever present possibility given the well-known public good characteristics, free-rider and "under-provision" consequences associated with shareholder monitoring and the inevitable "entrenchment" effects accruing to incumbent managers; that is, in order to fulfill their strategic leadership and management functions senior executives necessarily have to be provided with a wide range of decision making discretion and control (authority) over the firm's resources and information systems.

Not surprisingly then, corporate governance reforms have focused on ways of rendering executive discretion more accountable to shareholders, primarily via strengthening the independence of the board of directors and improving the quality and reliability of the financial information disclosure regimes. Board reforms, such as splitting the roles of Chair and CEO, having a majority of independent NEDs and specialized board sub-committees, were expected to put boards in a much stronger position to meaningfully monitor, query and control managerial behaviour.

Unfortunately, though independence from executives is without doubt a necessary condition for boards to adequately fulfill their managerial monitoring and control responsibilities, the evidence of the silent failing bank boards indicates that even ostensibly independent boards frequently fail to challenge managerial goals and strategies. Without a doubt, acquiescent boards that display uncritical loyalty to their CEO, even when they have not been appointed by the CEO and/or have no financial ties or expect to derive any economic benefits from their support, have been a notable feature of many past corporate governance failures.

[1] A Type I agency problem Morck (p 193) defines as occurring when an individual acts for herself when social welfare would be higher if she acted as an agent.

Morck argues that the pioneering series of studies by Milgram (1963, 1974) provides a sound psychological basis for explaining why even independent boards with clear legal and ethical responsibilities towards shareholders often "seem paralyzed in the presence of powerful CEOs." (p 184). The Milgram experiments demonstrated that humans have an innate predisposition to obey authority and that this induces a marked "loyalty bias" in regard to the views and actions of "legitimate authority figures". Morck (2008) argues that board acquiescence to CEO goals and strategies is a manifestation of this deeply ingrained and, in the case of NEDs, misplaced, "loyalty bias". This strong predisposition for obedience makes dissent to any authority figure psychologically difficult even in situations when, as in the case of the boards of the failing banks, the individuals involved had an unambiguous legal responsibility to "ask hard questions, demand clear answers, and blow whistles".

The consequences of boards failing to adequately exercise their responsibilities towards shareholders Morck labels a "Type II" agency problem, which he defines as occurring when "an individual acts as an agent when social welfare would be higher if she acted for herself." Boards with a strong loyalty bias end up acting as the "obedient agents" of the CEO rather than thinking for themselves and, as many previous corporate failures suggest, such misplaced loyalty biases are capable of generating substantial type II agency costs.

In summary, the widely held corporation characterised by strong and entrenched senior managers, particularly if led by a charismatic CEO, is unlikely to be immune to the negative impact of destructive leadership since all three elements of the toxic triangle are likely to be in place. The role of CEO appeals to - and therefore attracts - narcissistic power-hungry individuals, the patronage and power over employees this implies makes reliable susceptible followers and in the absence of truly awful and sustained corporate performance, an unscrupulous CEO can exploit the innate loyalty biases of even independent members of the board of directors to get his way. We now examine the 20 year career of Michael Eisner as Disney corporation's CEO to illustrate these issues, giving historical purchase to the abstractions of management theory presented so far.

Emperor Eisner: A case study in the power of personal control in a corporation

Michael Eisner's twenty reign at the top of Disney (from 1984-2003) provided him with the longevity necessary to ensure his personality was firmly stamped on the corporation he headed. In this section we describe how Eisner worked the corporate board and senior management to maintain and build his personal power and how he ultimately lost power as the Board and senior managers, some family members, lost confidence in him. We choose Eisner not because he is a crook, or swindler, but rather because as a icon of American business he better exemplifies the norm of business life (as opposed to Jeff Skilling, or Robert Maxell, who are recognized by their peer CEOs to be bad apples). In many ways Eisner is a paragon of American business life having been recognised as Pioneer of the year by the Will Rogers Institute in 2003, an honour previously awarded to Cecil B. De Mille and

Jack Warner. Disney Corporation itself it a straight out American institution with its ambition of releasing "the child within us all" as its founder Walt preached. In doing so we plunder a number of excellent accounts of his reign at Disney including one by Eisner himself ((Stewart 2005), (Eisner and Schwartz 1999) and (Masters 2001)). In many ways Eisner's reign was a paradigmatic case of Roe's "political" thesis. Barry Diller, his ex-boss at Paramount, captured his style in a newspaper interview

> *"The Board doesn't control Disney, and the investors don't control it. Michael controls it" ((Masters 2001), pp 322)*

Eisner arrived at Disney in a lull in its distinguished history at the behest of Roy (E.) Disney the son of Walt's brother (Roy O. Disney). In the years since Walt's death in 1966 the Disney Corporation had atrophied under his chosen successor, his son –in-law Ron Miller. Miller had stood down in favour of Card Walker two years before. But by 1984, when Roy Disney approached Eisner, Miller's inhibiting presence was still felt. Disney was widely touted as a takeover target and Eisner felt little pressure to accept the initial offer of becoming President of Disney. He told Roy Disney

> "Ron. I'm bigger than you right now at Paramount. I make three times as many pictures and do really well. So if I come here, I want to be President and Chief Operating Officer." (Stewart, 2005, pp 47)

The Early years

Eisner had made a name for himself as President at Paramount studios under Barry Diller's Chairmanship. Together Eisner and Diller developed a series of "high-concept" productions where plot and characterisation were considered more important than big movie stars or dramatic locations and special effects. *Saturday Night Fever, Grease, Terms of Endearment* and *Flashdance* are memorable examples of how this philosophy worked out. Eisner articulated the basic idea of how to make a studio work as follows

> "*We have no obligation to make Art. We have no obligation to make history. We have no obligation to make a statement. But to make money, it is often important to make history, art, a statement, or all three*." (Stewart, 2005, pp 32).

Eisner knowing, his own value, held out for a stunning pay-package. This was a base salary of $750 k per year, plus an equivalent signing on fee, plus 2% of all profits over $ 100 million per year, plus options to buy 510,000 options at the current stock price of $57 per share. By 1988 Eisner would get a bonus of $6.8 million and a further $32.6 million by exercising his options. With a total income of over $40 million dollars that year (plus $50 millions worth of unexercised options) Eisner was the highest paid Executive in America in 1988.

Eisner's position was substantially weakened following his emergency open-heart surgery in July 1994. He felt the need to delegate some tasks. This led him on a quest to find a worthy lieutenant a mission his was to find difficult and ultimately fruitless (Stewart, 2005, pp 175). The hierarchy broke down because its principal hierarch could not execute him dominating function. We examine this dissemblance below.

Jeffrey Katzenberg

In reaching this position Eisner had not been slow to wheeled the knife on Disney's payroll. Over a thousand managerial posts were cut in Eisner's first four years, with many replacements coming in from Paramount. Chief amongst these were Jeffrey Katzenberg. Katzenberg had been Diller's personal assistant at Paramount and his workaholic drive soon led others to notice him. Katzenberg was not unaware of his own worth and on being approached by Eisner constructed an alarming wish list including

> "*2 seccy's, a beach house, a corporate jet, travel-family, etc, screening room, house maintenance? Butler*?" (Stewart, 2005, pp 58)

In a concession which later proved controversial Katzenberg was offered a 2% annual bonus of all the profits from productions he headed up. Further, Eisner brought in a new Chief Financial Officer from Marriot Hotels, Gary Wilson. As the revenues from Katzenberg's hits rolled in Frank Wells became concerned about the 2% perpetuity in project proceeds they had been granted to Katzenberg. This problem became especially prominent after successes like *Little Mermaid* and *Pretty Woman* made it clear that Katzenberg was capable of producing true box-office magic with accompanying massive revenues.

Katzenberg offered to relinquish this entitlement if he was guaranteed at least 75% of Eisner's remuneration. Frank Well's the company President, and Eisner's chief lieutenant rebuffed this suggestion. This foreshadowed the later rivalry between Eisner and Katzeberg (Stewart, 2005, 100).

By early 1991 the liability to pay the 2% of proceeds to Katzenberg has become so worrying that Wells launched "project snowball" to calculate its total cost if Katzenberg departed from Disney, which was beginning to look increasingly likely (Stewart, 2005, pp. 117). This began a trend of dysfunctional jousts for the loyalty of senior managers between Eisner and his often equally gifted favoured second in command. Since "hawks don't share" this set the stage for much wasteful and often litigious wrangling.

Gary Wilson made clear public statements that he intended to transform Disney into a growth company generating a consistent 20% earnings growth and 20% stock price growth to match. This was what Wilson termed his "20/20" principle (Stewart, 2005, pp. 66). With ambitions like these pressure to generate income was intense from the start of Eisner's control. By 1990 Eisner could sensibly speak of the last ten years as the "Disney decade" and upped his projection of future earnings growth to 20% in his dealings with investment analysts. But many Disney insiders were becoming nervous that an unjustifiable arrogance was setting in and Gary Wilson himself unloaded $60 million in stock that year (Stewart, 2005, 113).

Nowhere was this pressure felt more intensely that in the animation division which had been the origin of Disney's greatness as a corporation but which now stood almost idle. Hand production, frame-by-frame, of animated sequences made for labour intensive slow work. Initially Eisner and Frank Wells intended to shut animation down. The primary opposition to doing so came from Roy Disney to whom Eisner felt beholden because he had got him the CEO's position in the first place. The remarkable resurgence of animation was due to an ambitious young vice-president Stan Kinsey who championed the cause of George Lucas's (of *Star Wars* fame) Pixar Advanced Computer Graphics. Pixar's computer generated graphical images held out the prospect of making films without expensive movie stars and touchy Directors with exorbitant budgetary demands. While Katzenberg had no interest and preferred to focus on his traditional strength of real-life action dramas Eisner gave the project funding to proceed largely to placate Roy Disney his sponsor. Eisner told Katzenberg

> "*Roy wants to do this and he believes in it. I think we have to take a deep breath and say yes*" (Stewart, 2005, pp 86)

Perhaps this was the upside of Eisner's ability to sacrifice short-term shareholder wealth to personal objectives and the allure of speculative projects. Since Pixar was at this point largely a one customer company its salvation largely lay in Eisner's hands.

Elsewhere he and Katzenberg implemented the "high-concept" drama principle that had worked for them at Paramount. These were films with good story lines that appealed to a wide audience, but had no big name stars or expensive Directors attached, *Down and out in Beverly Hills* and *Three men and a baby* were notably successful comedies in this genre.

Eisner's ambition grows

But elsewhere a worrying growth is Eisner's self-awareness was becoming visible. Early on in his leadership Eisner decided to re-launch the television show *The Wonderful World of Disney* and to present it himself. This was despite a widespread belief he was a poor presenter and the prospect that Tom Hanks might be willing to take the role. By presenting the television show Eisner placed himself in direct succession to Walt Disney himself, a mantle for which there was competition from Roy Disney and other family members. Some already felt there was an element of Icarus ascending to Eisner's decision.

But it was in the theme parks division that Eisner's more majestic vision came to the fore. The theme parks, Walt Disney World in Florida and Disney World in Anaheim, Los Angeles, had been a pet project of Walt Disney undertaken in opposition to his brother Roy O. and other family members. By the time of Eisner's arrival the parks were a steady earner, headed by Richard Nunis, one of the few cash-generative businesses Disney had left. The parks allowed Eisner to indulge his more creative/artistic side, especially his love of architecture. While being a total amateur Eisner took a detailed interest in the hotel developments in the parks, holding presentations by competing architectural teams at his home, as well as making detailed comments himself. The more imperial vision of Eisner began to be displayed. Stewart (2005, pp 66) quotes him as saying of these projects in a memo to Frank Wells

> "*If we are going to stamp our imprint on the world, if we are going to do something more than help people have a good time with Mickey Mouse, if we are going to make aesthetic choices, then we have got to upgrade the level of our architecture and try to leave something behind for others……… There is definitely going to be a problem, trying to make some of our executives understand that we're not just going to be just concerned with the bottom line… and we are going to try and make a statement – to make some history. There are some who feel its going to cost us some additional money. I don't think it has to, but even if it costs us a few dollars more, I think it's well worth it.*"

But by 1991 the Euro Disney costs were out of control having exceeded $2 billion. A construction advisor brought in to reconnoiter the situation reported to Eisner "You are headed for one of the biggest failures in construction I've ever seen". The total cost of the Euro Disney park was ultimately to exceed $4 billion. This left Euro Disney at its opening saddled with $3 billion of debt. Part of the reason or this was Eisner's insistence that the park open 9am sharp on April 22nd 1992. This opened Disney up to all sorts of hold out demands from French construction companies and their somewhat prickly labour unions. Nor was the opening of Euro Disney the end of Eisner's woes. Visitor numbers were far more sensitive to the weather than in the Japanese park and Euro Disney proved unable to generate sufficient operating income to independently service their debt. Disney by 1994 was forced to pressurize debt bold holders to accept a re-structuring of the debt schedule which was hardly designed to encourage investment in future Disney projects.

Following on from the Euro Disney debacle Eisner accepted an invitation to become involved in the renovation of the New Amsterdam Theatre and the Time Square area in general. By February 1994 New York Mayor Rudolf Giuliani was praising the "match made in Heaven" that was Time Square and Disney Corporation. Indeed Euro Disney did not exhaust Eisner's ambitions to build new parks. Eisner also started developing plans for a theme park themed on American history called "Disney's America" outside Washington DC (Stewart, 2005, pp 147). This became one of Eisner's few public failures when it was shut down in the face of "nimby" protestations by Washington residents in 1994.

This high ambition underlay the increasing divergence between Eisner and his close partner Jeffrey Katzenberg. This tension can be illustrated by the development of two contrasting projects in the early 1990's. *Dick Tracy* was a standard star-studded blockbuster, featuring Warren Beatty and Madonna and was favoured by Eisner. *Pretty Woman* favoured by Katzenberg, a fairytale love-story concerning the love of a high-class call-girl played by a relative newcomer to Hollywood, Julia Roberts. *Dick Tracy* dominated by the co-stars affair and their costly demands cost a whopping $47 million and grossed $100 million, a respectable, but not thrilling return. *Pretty Woman* cost $ 14 million and grossed $463 million, serious money by anyone's standards. But the real power shift from Eisner to

Katzenberg occurred because of the huge success of animated productions and the comparatively poor showing of real-life dramas.

Eisner was paid handsomely for all this in December 1992 he took home total compensation of $197 million, partly via the exercise of five and a half million options. That year Eisner's name crept into the *Forbes* 400 rich list ((Masters 2001), pp. 273). Eisner's empire was clearly worth retaining. But this retention came at the cost of rebuffing and ultimately offloading key subordinates who were rapidly emerging as threats to Eisner's control

By its termination in 1994 the Eisner/Katzenberg partnership had created a company earning $2 billion profits on revenues of $10 billion Even the live-action studio at last produced a winner in the form of *Pulp Fiction* a tongue in cheek gangster movie from the new enfant terrible of cinema Quintin Tarantino.

The rift between Katzenberg and Eisner

This contrast led Katzenberg to issue a memo to Disney executives calling for a return to their "high-concept" story-based, cheap to produce, roots which Eisner had pioneered at Paramount but now seemed to be abandoning. This vision of Katzenberg's was articulated in "The Memo" released in a briefing to analysts in Orlando in early 1991 (but originally intended to be private) he stated (Stewart, 2005, 114)

> "*Our initial success at Disney was based on our ability to tell good stories well. Big stars, special effects and named directors were of little importance. Of course we started this way out of necessity. We had small budgets and not much respect. So we substituted dollars with creativity and big stars with talent we believed in. Success ensued. With success came bigger budgets and bigger names. We found ourselves attracting the caliber of talent with which "event" movies could be made….The result; costs have escalated, profitability has slipped and our level of risk has compounded. The time has come to get back to our roots. It seems that, like lemmings, we are running faster and faster into the sea, each seeking to outrun and outspend and out earn the other in a mad sprint towards the mirage of making the next blockbuster*."

This back to basics call started a rift between Eisner and Katzenberg that would ultimately lead to Katzenberg's departure and the demise of a creative partnership that had dominated the movie business for a decade. Other hits ensued, *The Beauty and the Beast* and *Lion King*, but the old magic was gone. Katzenburg's refusal to either conform or collude with an increasingly destructive leader lead to crisis in terms of our Figure 1 Padilla, *et al* (2007) framework.

But by 1992 Katzenberg was the golden boy and he knew it. While live-action films and the parks languished his animation studio generated earned of $500 million in 1992. As if sensing "project snowball's" presence Katzenberg asked in Frank Wells 1993 to report on what the expected payout on his 2% of all proceeds on projects he headed deal. Wells already knew this would amount to be $169.4 million. This gave Katzenberg considerable leverage in his negotiations to extend his current contract beyond its current 1994 expiry date.

In this spirit Katzenberg asked Eisner if he could be guaranteed the succession to COO and President if Frank Wells were to leave (as was expected as he was known to harbor political ambitions in the U.S Senate). Eisner found the approach distasteful while normally indicating that Katzenberg could expect to succeed Wells (Stewart, 2005, pp 139). This began a misunderstanding that would ultimately lead to the Courts. Both Wells and Eisner were well aware that it was the teamwork of the trio that had produced the magic of the last decade and were wary of losing Katzenberg and possibly creating a major competitor.

The bubbling conflict inevitably boiled over when Frank Well's died in a helicopter crash on the ski slopes of Nevada on Easter Sunday 1994. Katzenberg sat till the following Monday awaiting Eisner's call. But in the event he just received a public press release telling him Eisner was assuming Well's prior roles as COO and President. At subsequent crisis meal Katzenberg let Eisner know his true feelings about not be named Eisner's second in command

> "If you can't tell me after 19 years, if you can't tell me, then you've told me everything I need to know about my future. I've hit the ceiling I have to move on. After 19 years together I have earned the right to be your partner. You should know me by now" (Stewart, 2005, pp 161).

Meanwhile the movie hits in animation just kept coming. *Toy Story* over which Eisner had doubts proved another big hit for Katzenberg's studio. The *Lion King* which opened in June 1994 was dubbed by one analyst "The most profitable picture in Movie history" (Stewart, 2005, pp 169).

Despite this, following Eisner's decision to rely on others to recover the situation after his 1994 heart attack Katzenberg decided to leave Disney and form *DreamWorks* (SKG) with his friends the film Director Stephen Spielberg and David Geffen the famous music impresario. Following his departure his *de facto* replacement Michael Ovitz sought to negotiate a settlement to Katzenberg's expected bonus payments. Katzenberg seemed willing to accept a $100 dollar payoff, which was a good deal for Disney, but Eisner felt so bitter about the dispute he refused to settle (Stewart, 2005, pp 237). While the settlement would certainly enhance shareholder wealth, by maybe $300 million or more, personal dislike got the better of this outcome.

Katzenburg had already been warned by a colleague, before leaving Paramount "Eisner doesn't need a partner and he will never accept you as a partner" ((Masters 2001) pp 299. But Katzenberg struggled a long time before accepting the truth. Loyalty, even if blind, had become a requisite trait to remain at Eisner's side.

Finally, on April 9th 1996 Katzenberg filed a suit in the Los Angeles superior Court claiming a breach of contract and remuneration worth possibly as much as $12.5 billion, as the cumulative value of 2% of all the projects he headed up at Disney during his time there (Stewart, 2005, p449). At this point $100 million seemed like a pretty good offer. Finally, on the July 4th weekend 1999 Stanley Gold was able to negotiate a $280 million settlement of Katzenberg's claim in a deal negotiated by David Geffen on Katzenberg's behalf. But this was only after a public hearing of an arbitration in front of former Judge Paul Breckenridge in which notes taken for an autobiography of Eisner, ghostwritten by Tony Schwartz, were subpoenaed. This brought into full public view the contempt in which Eisner held Katzenberg, Ovitz and other senior colleagues. The press had a field day. The more destructive elements of Eisner's increasingly lonely leadership role were rapidly coming to investors' attention.

Michael Ovitz

Eisner after Wells death and Katzenberg's departure was, Chairman, CEO, COO, President and the creative force behind a animation studio currently enjoying fantastic success. Unsurprisingly, his Doctor and wife begged him to delegate some of his duties before the stress of command proved fatal. It was at this point that Eisner decided to acquire the ABC television network in a move that would hugely expand both Disney itself and the managerial demands on his time. Eisner had himself come up through the ranks of ABC twenty years ago. It was now pretty clear Eisner needed help to retain control of such a complex company. He looked to his long-time friend and confident Micheal Ovitz, who was the leading partner in Creative Artists Agency a partnership that negotiated on behalf of some Hollywood's leading talent

Recently Ovitz had emerged as a central matchmaker/dealmaker in Hollywood advising Japanese market entrants into Hollywood like Matshushita Electric Corporation's acquisition of Universal Studios and the Sony corporation on their acquisition of Columbia and TriStar studios (Stewart, 2005, pp171). In fact Ovitz had also been courted by Universal Studios itself with a deal rumored to offer him $250 million. Eisner enticed Ovitz with the notion that he would be his "partner" but was reluctant to specify what this meant in terms of a formal position. Of course in reality the term had little meaning to Eisner at all.

Indeed days after Ovitz's arrival he was summoned to Eisner's house (they were family friends prior to his arrival at Disney) to be informed that neither the Sandy Litvack, General Counsel and Vice-Chairman of Disney, or Steve Bollenbach the CFO were happy to report to him even tough this had been the line-of-command when Frank Wells was President (Stewart, 2005, pp 217). Eisner refused to intervene.

One of the reasons Eisner increasingly distrusted Ovitz was his tendency to thrive on a flurry of deals, or near deals. Eisner, at some level still adhered to his "high concept", cheap and profitable formula. As he expressed it to Ovitz in a memo on October 10th 1994

> "*The 'deal' is not the essence of Disney…Operations are the thing…I feel about acquisitions exactly as I feel about everything else. We don't need them. We don't need the overly expensive movie or television show. We don't need the actor who has priced himself out of the market. We do not need the acquisition that, even if it fits strategically, is economically ridiculous*" (Stewart, 2005, 225)

Coming from a man who that year had completed the second largest acquisition in history, albeit at a low premium, this comment seemed strange. But Eisner's reservations did not just concern the substance of his business approach. He was also concerned about Ovitz's style, especially the lavish Hollywood parties, present giving, which Ovitz had almost adopted as a habit in his days massaging the "talent's" collective ego.

By June 1996 Ovitz could stand Eisner's interference and undermining of him no more. He confronted Eisner in a letter mocking his decision to house the senior executives in a building called "Team Disney" as follows

"You're a team destroyer not a team builder. I've have had enough trouble inheriting your fights and enemies. Everyday day somebody complains to me about something. It is ok because it is human and healthy….I've always had one goal to protect you, the company and our relationship. Maybe you cannot have a partner. You failed with everyone over the years, You hated Diller. You constantly complained about him even when you went to Disney. You couldn't stand Frank Well or his work habits for the first five year…" (Stewart, 2005, pp 256)

This statement tags Eisner as having key characteristics of Padilla *et al*'s (2007) destructive leader seeking affirmation and conformity even as he makes very unwise decisions.

Despite the external appearance of "Team Disney" Eisner was unable to either substantially share the glory of the undoubted achievement under his reign. He had worked with a number of "partners", Wells, Katzenberg, Ovitz each of which in his view had failed him. Eisner recognized the benefits of teamwork yet feared the reality of the dilution personal control it implied

Still the hits just kept on coming from the Disney Studios with The *Hunchback of Notre Dame* grossing over $100 million and the "event" movie of that year *101 Dalmations* taking $136 million in domestic receipts alone despite incurring a high production cost of $45 million.

Ovitz finally departed Disney on December 11th 1996. Strangely in his case Eisner was happy to give a full pay-out due to him for termination under his contract issued 16 months earlier. This included $50 million in cash plus options on 5 million Disney shares then valued at $40 million. Eisner consulted general counsel Sanford Litvack on whether Ovitz could be simply dismissed for "just cause". Certainly, Ovitz had a style of management that grated with Eisner and was more "showbiz" than was normal at Disney. But ultimately Disney issued a press release announcing Ovitz's departure "by mutual consent" (Stewart, 2005, pp 274).

Eisner tightens his grip on command

Following Ovitz's departure in 1996 Eisner had his status confirmed by the Board by a new ten-year contract confirming his $750,000 a year salary but now granting a staggering 8 million share options on Disney stock. The compensation consultant valuing the contact suggested a value of $771 million for this package, although this was later revised downwards by Disney to be $195 million in its published accounts. Even this was the best deal ever given to a Chief Executive of a public corporation then known (Stewart, 2005, pp.278). On reflection this offer must reflect more than a shade of loyalty bias on the Board's part. But as we shall see this was a Board whose composition Eisner had been very careful to groom to his tastes.

The generosity of this settlement is perhaps less surprising when one is aware that Eisner's personal attorney, Irwin Russell, was both on the Board and Chaired the Compensation Committee. Russell simply relinquished the Chair to Ray Watson when Eisner's pay was considered. Other Board members included the head of Eisner's kid's School in West Hollywood (Roweta Bowers) and the architect Eisner chose to build his own home and completed a number of the projects in theme parks. (Robert Stern) (Stewart, 2005, pp. 279). Not that Eisner's really needed to massage the Board anyway. As the second biggest shareholder after Sid Bass and the Bass family Eisner had enough voting stock to remove those who he perceived as awkward.

Around the time of Fox Family acquisition in the summer of 2000 two board members, Roy Disney and Stanley Gold, were becoming increasingly concerned about the financial performance of Disney Corporation. While at a company level Disney remained profitable since 1995 on most standard, ratio based, metrics of performance (return on equity or assets) had been heading relentlessly downwards.

Bizarrely at this point when ABC's fortunes looked most precarious Eisner wrote a new $9 million three-year contract for Stu Bloomberg Chairman at ABC. Both Stanley Gold and Roy protested but it was awarded anyway. This sowed the seeds of doubts regarding Eisner's judgment that preceded his fall.

Something needed to be done if the illusion of Disney as a growth (as opposed to an income) stock was to be maintained. At around this time Eisner organized a retreat for Executives in "Team Disney". An outside consultant bought in to conduct in-depth interviews with executives attending concluded "my research concludes you guys are not a good team. You're not a team at all. You're not even a group". On being quizzed about this feedback one participant responded

> "*What Michael likes is to put six pit bulls together and see which five die.*" (Stewart, 2001, pp 367)

As an image of misplaced loyalty this is an extraordinarily vivid image. That this image contained more than a grain of truth was soon to become very apparent as Eisner's misrule intensified. By 2001 Eisner's core strategy of divide and rule had left Disney factious and weak and the harsh reality of post 9/11 America was to cruelly expose this weakness.

Disney as an American cultural icon saw itself now directly under threat from al-Qaeda inspired terrorism. The discovery by Spanish detectives of videos of the Golden Gate Bridge, Universal Studios and Disneyland in an al-Qaeda cell's apartment caused panic to set in. The fact that the Arabic commentary suggested these were normal lighthearted tourist fare was not sufficient to retrieve the situation. The immediate threat was perceived to be to the parks where cancellations spiked and bookings fell precipitously. The reflex action drop on the stock market in the days following the attacks hit Disney hard too. Disney shares fell from a value of $23 dollars per-share on the morning of the attacks to $17 dollars on Thursday of the following week.

A major consequence of this from Eisner's perspective was that sudden margin calls on the Bass family's holdings forced Sid Bass and his siblings to substantially liquidate their position. Since they held much of their position via only partially paid for stocks (held "on margin" in stock market jargon) the sudden price forced them to show cash to cover their investment. Although the Bass family had never taken a seat on the Board they had given unwavering to Eisner throughout his years at Disney. The combination of the Bass's stake and his own substantial shareholding largely liberated Eisner from too many tedious constraints from the Board. But the Bass family too had noticed the deterioration in financial performance highlighted by Roy Disney and Stanley Gold. So the 9/11 margin calls may not of been an entirely unwelcome opportunity to unload their Disney holding without too much embarrassment (Stewart, 2005, pp 372-376). To add to Eisner's woes the proceeds of $1 billion dollars of marketable debt, originally issued to fund the Fox Family acquisition, ended up being diverted into panic buying of Disney's stock in a declining market.

Eisner's fall

As Disney's financial performance foundered the particular coalition of corporate players that had maintained Eisner's control began to unravel. One irksome problem for Eisner was the impending expiry of the production contract with Steve job's *Pixar* for computer generated animation projects. Called before a Senate Committee to give evidence concerning video/DVD piracy and circumvention of intellectual property rights in films and music he lashed out in an unusual display of public emotion.

> "*there are computer companies – computer companies , that their ads… full page ads, billboards up and down San Francisco and L.A., that say – what do they say? 'Rip, Mix, Burn'…In other words they can create a theft and distribute it to all their friends if they buy this particular computer*." (Stewart, 2005, pp 383)

This was a clear reference to Steve Job's Apple and their recent statewide adverts for the iMac computer. Eventually the existing concerns of Stanley Gold and Roy Disney found common cause with Steve Jobs whose initial irritation at Eisner's opposition to doing *Toy Story* had been intensified into rage by his statement to the Senate. A coalition to unseat Eisner had now started to emerge.

Once again EuroDisney (now renamed Disneyland Paris) would play a key role in Eisner's fate within Disney. On March 16th 2002 the $533 million "second gate" of the park was at last opened. The idea behind this new attraction was to attract visitors to extend their stay at the park hotels which had always been a problem at EuroDisney. Eisner attended the opening as did the whole Board of Directors. One recently appointed director, Andrea van de Kamp, told Rob Iger about her doubts about the wisdom and efficacy of the park improvements given their corporate objectives. On hearing her objection Eisner insulted her and questioned her loyalty. News on this storm in a teacup spread and soon board members were gossiping about Eisner's ability to take the pressure and successfully turn the company around. When June's 2nd quarter results slowed further slippage on financial targets Stanley Gold's concern and expression of it grew.

Concurrent to this the steady stream of accounting and corporate scandals, Tyco International, Enron, Worldcom produced the reactionary Sarbox leglisation in their wake. While Disney emerged with its integrity intact from this period it still had to show itself Sarbox compliant like everyone else. When internal lawyers began this process they concluded Stanley Gold could no longer formally be regarded as an "independent" executive since his daughter held a $50 thousand per-year job as an advertising representative within Disney. Eisner had the ammunition he needed to crush emergent opposition and promptly asked Gold resign from the Board entirely or at least step down from heading the Nominations Committee of the Board. This opportunistic side-step badly backfired when Gold went into open opposition to Eisner by circulating emails and memos criticizing him around the board as a whole. An example of their content is given below

> "*I have had fund managers tell me they won't buy a share of stock in a company where Michael Eisner is CEO. I have had employees (senior executives) tell me the company would be much better off with a new management team. Morale at the company is at an all time low*." (Stewart, 2005, pp407)

The final meltdown was in process (Stewart, 2005, pp 401-409).

On 23rd September 2002 Stanley Gold presented the full scale of the problem. He told the Board that since 1995 Disney had deployed an additional $24 in invested capital yet operating income had declined. The compounded annual return on Disney stock since 1995 had been 1.9%, lower than the return on Treasury bills. Eisner had failed to meet his financial projection every year for the past five, falling short by 23% in year one, 33% in year two, 47% in year three and 55% in the fourth year. Further, what profitability there was solely contingent on the continuing deal with *Pixar* and more recent hits like *A Bug's life* and *Finding Nemo*. But Eisner's continuing presence completely undermined any chance of that collaboration continuing. Eisner was shocked and asked the Board for a vote of confidence in him. None was given and he was left to limp onwards.

Eisner was finally removed from his position as Chairman of Disney as a result of 43% of shareholders withholding their endorsement of his position on the Board on in an Annual General shareholders meeting March 3rd 2004. He stayed on as CEO for one more year. This unprecedented vote of no confidence resulted from all three of the major "proxy" shareholder institutions (that hold mandates to vote on behalf of passive shareholders these are Institutional Shareholders Services (ISS), Glass, Lewis and the California state pension fund CALPERS. But Eisner's ouster was supported by the Fidelity investment fund and an array of smaller state pension funds including those in Florida and New York (Stewart, 2005, pp 508-514). This last push was partially the result of an Internet-based petition campaign against Eisner called "Save Disney" organized by Roy Disney and Stanley Gold. Eisner was to be the victim of the impact of the "new media", but perhaps not in the fashion he expected.

Summary

Roe's (1994) work provides an insight into how the corporation is more than simply an optimal technical response to the need for a least-cost contractual vehicle for mass production. In particular the specific vehicle chosen to organize the accumulation of large amounts of productive capital reflects a society's economic and social history and especially its chosen social settlement between shareholders, managers and the work force that serves them. However, even in a competitive market and compliance with corporate governance codes, this not imply that agency costs will be either minimised or will be relatively unimportant in terms of shareholder wealth outcomes. Indeed, using the "toxic triangle" framework of Padilla *et al* (2007) and, in particular recognising that even formally independent board members are likely to display an unhealthy "loyalty bias" towards their CEO, it can be seen that this organisational form, characterised by strong and often entrenched senior managers, is capable of providing all the necessary conditions for the exercise of "destructive leadership", involving massive negative outcomes for other stakeholders. The case study evidence relating to Michael Eisner's years at Disney show clearly how a strong and well supported managerial elite can effectively usurp shareholder's ability to control the business and can rely upon the innate tendency of humans to display excessive loyalty to an authority figure even then this conflicts with their ethical and legal duties.

The negative consequences of excessive obedience to authority has, of course, long been a concern in many other institutions and areas of public life such as politics, the law, journalism and universities. In all these other areas the solution to limiting their type II agency costs has been to find ways of "institutionalizing dissent", i.e., where dissent is both the expected and legitimate response to the pretentions of those that claim "authority". Morck (2008) argues that this holds some clear lessons for corporate governance reformers seeking to improve board effectiveness, particularly so as these institutional solutions that legitimate dissent are consistent with the implications of Milgram's experimental results regarding the factors that impact on the strength of this loyalty or "obedience to authority" bias. Milgram's results show that the tendency for individuals to adopt an uncritical and obedient attitude towards an authority figure is greatly reduced by:

1. the presence of dissenting peers,
2. the presence of an alternative authority, and,
3. the absence of the authority figure during decision making.

Morck suggests that governance reforms along the lines of the Higgs (2002) recommendations would increase the presence of both dissenting peers and alternative authorities on the board and, with more board meetings without the CEO present, such reforms could be expected to significantly increase the likelihood that boards will act independently in the future. We agree with Morck that the Higgs (2002) recommendations regarding increasing the powers of NEDs, encouraging greater communications with shareholders and splitting the roles of chair and CEO, may over time more firmly embed dissent into board discussions. However, as the Eisner-Disney case suggests, overcoming the obedience to authority bias is unlikely to be guaranteed by tinkering with changes in the corporate governance of the widely-held firm unless it involves a fundamental change in the power relationship between executives and shareholders. Indeed, it is likely to involve several longer-term changes in values and the structure of and powers of other institutions as much as any specific corporate governance reforms.

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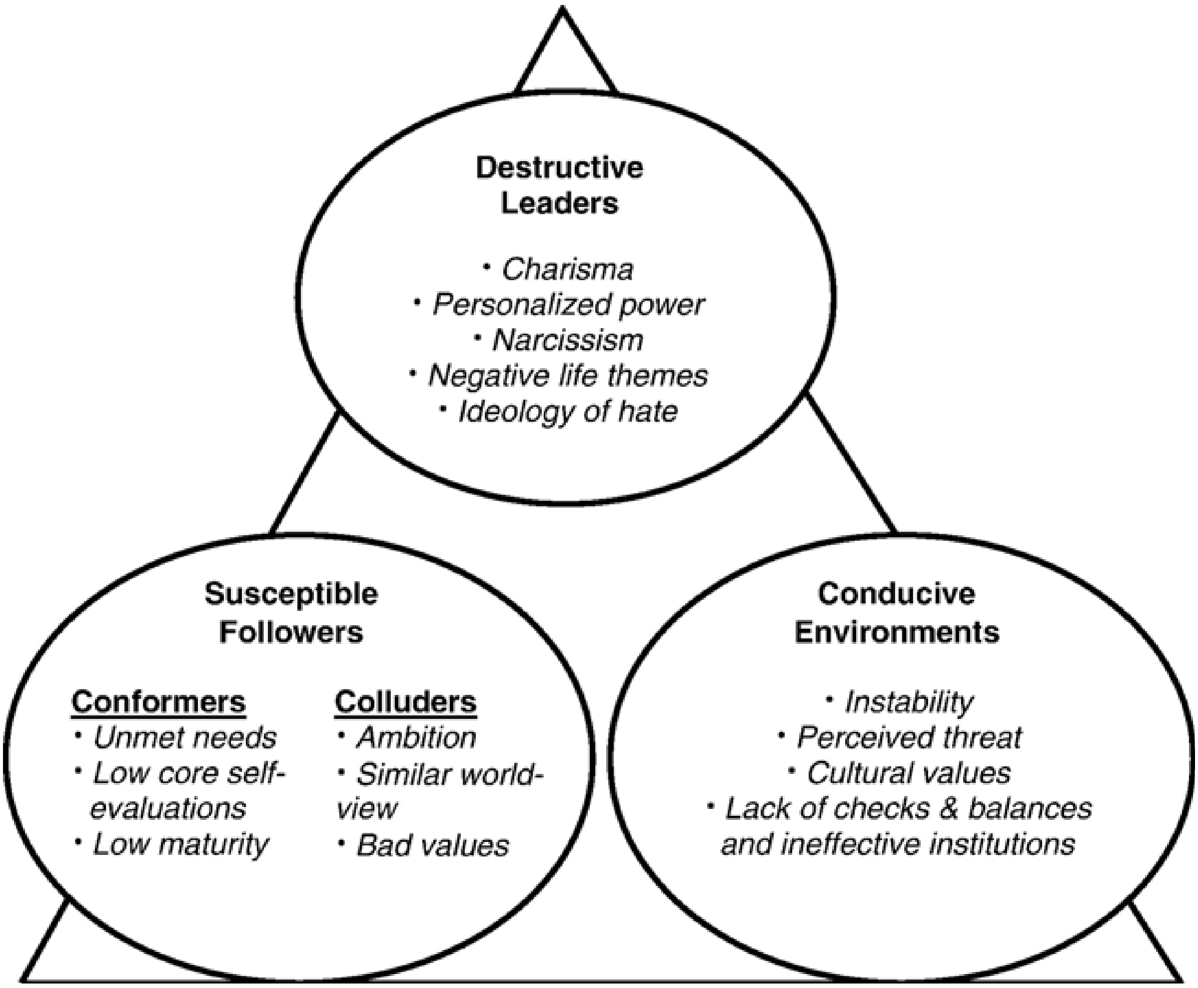
Figure 1

The Toxic Triangle: elements in three domains related to destructive leadership*



*(source: Padilla, *et al*, 2007, p 180)

Figure 2:

How exit affects the exit/voice trade-off