Schumpeter | Mickey Mouse governance

The meaning of Walt Disney's latest boardroom changes

AMONG the many voids left by the death of Steve Jobs on October 5th was an empty seat in the boardroom of Walt Disney, where he was the largest shareholder. Soon afterwards, Disney announced that Robert Iger, the media and theme-park giant's chief executive since 2005, had signed a new five-year contract, at the end of which he will leave the firm. Next March Mr Iger will also become chairman of Disney's board.

The timing may be linked to the death of Mr Jobs. With his shares likely to go on the market, and Disney's performance having stalled again lately, there are rumours that a rival might try to buy the firm. Announcing Mr Iger's new deal and departure date sent investors a reassuring message: there will be continuity at the top. And the board has ample time to plan for life after the esteemed Mr Iger, who is said to fancy a new career in politics.

Still, Disney's decision to combine the posts of chairman and chief executive infuriates corporate-governance activists. They see this merging of the two roles as a step backwards, allowing the possibility of a return to the lousy governance for which Disney was notorious under Michael Eisner, Mr Iger's over-mighty predecessor. Back then, Disney's board might easily have been mistaken for a pair of Snow White's dwarf pals (specifically, Sleepy and Dopey). At one point, its directors included an architect friend of Mr Eisner and a local schoolteacher. This made it a target of shareholder activists who, after a series of corporate scandals at other firms with insufficiently accountable bosses, campaigned for big changes in how all American firms were governed. The separation of the chairman and chief executive roles at Disney marked an important victory for that campaign, which is why its reversal is disappointing.

Less than a decade ago, it was highly unusual for more than a handful of shareholders of American public companies to cast their votes against the re-election of board members, especially the chairman. Indeed, such was the feebleness of shareholder democracy at most firms that "no" votes were not even counted; only "yes" votes were. But in March 2004, following some high profile opposition and disappointing profits at Disney, 43% of shareholder votes were cast against the election of Mr Eisner to another term on the board. Instead of ignoring this vote, as it was free to do, the board stripped Mr Eisner of his chairmanship. In his place it appointed George Mitchell, a politician with a spotless name and a reputation for independence. Having brokered the Northern Ireland peace process, he was unlikely to be intimidated by a mere media mogul. Mr Eisner stayed on for a while as chief executive, but stepped down earlier than expected in September 2005.

Looking back, this vote at Disney, and the board's reaction to it, was a turning point for the movement for better corporate governance. Today, far fewer board members appear to have been picked by the boss largely on the basis of their probable support for whatever he does. It is now the norm for "no" votes to be counted, and less unusual for shareholders to exercise their right to cast them. Shareholders of American firms have also been given a "say on pay" vote (albeit only an advisory one) on the remuneration of top executives. And this year they have said "nay on pay" on a record number of occasions. The number of American firms with a separate chairman and chief executive has also risen sharply, bringing America more into line with corporate practice on the other side of the Atlantic. Of the companies in the S&P 500, 210 now split the two roles. There is, to be fair, an ongoing debate over whether there is any tangible evidence that having a separate chairman improves a company's performance. Yet it is mostly bosses who argue that it does not, while shareholders generally think it does.

That said, there are still plenty of reasons to worry about the quality of corporate governance in America, as the recent mishandling of the firing of bosses at both Yahoo! and HP highlighted. There have also been some setbacks to efforts to strengthen shareholder rights, such as a recent court ruling against a measure in the Dodd-Frank financial-reform law that was intended to make it easier for shareholders to nominate candidates for the board. And now Disney's board, which had grown to be admired both for its accountability and diversity, has taken a step in the wrong direction. While hardly catastrophic, this has certainly sent a disappointing message.

With luck, this reversal will only be temporary, as Disney has promised. It has also pledged to appoint a "lead director", who will carry out some of the board duties that might otherwise have fallen to a stand-alone chairman—though it is unclear precisely what the responsibilities of this officer will be.

The award for best supporting actor goes to: no one

Why Disney's board gave both roles to Mr Iger is also not clear. But it is consistent, albeit in a small way, with a lamentable pattern: the tendency of media firms to opt for a leadership structure based on a dominant mogul, weak boards and open scorn for what shareholders regard as the best practice in corporate governance. There are other recent examples of this. IAC, a firm run by Barry Diller, recently appointed Chelsea Clinton to its board. Schumpeter has nothing against Ms Clinton, but it is hard to imagine what virtuous instructions to a headhunter could have resulted in a 31-year-old with little relevant experience making its shortlist. However, the firm that puts the Mickey into Mickey Mouse corporate governance is surely Rupert Murdoch's News Corp. Thirteen members of its board are currently up for re-election. Institutional Shareholder Services, a firm that advises shareholders on how to vote, is recommending "no" votes for the whole miserable lot. ■

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