From Bob to Bob: Leadership Changes at Disney

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Key Takeaways

- Changes in leadership at the Walt Disney Company caused the sudden replacement of Bob Chapek with former CEO Bob Iger
- This shift by Disney was a result of complaints about Disney's quarterly performance and internal grievances about Chapek's management
- Although part of this change was due to poor economic performance, Iger's plans for Disney are indicative of a shift in company culture towards creativity and away from strictly profit
- Since taking over as CEO, Iger has restructured Disney into three divisions and has announced that Disney would eliminate 7,000 jobs in an attempt to cut costs, a move that was wildly unpopular among Disney employees but is consistent with layoffs happening across the tech industry

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Background: From Iger to Chapek

To understand why this leadership change is tumultuous, it is imperative to assess the recent history of Disney's leadership. In February 2020, Bob Iger, who was CEO of Disney for 15 years, announced he was stepping down and that Bob Chapek would take over. Iger remained on Disney's Board of Directors throughout 2021, coaching Chapek and the rest of Disney leadership through the COVID-19 pandemic.

Chapek's tenure was mired by multiple controversies, inciting substantial public scrutiny. First, his governance style resulted in reputational damage for Disney and loss of customer trust. He received public backlash for increasing admission fees at the Disney parks as well as for his silence on Florida's "Don't Say Gay" bill that passed in March 2022. Secondly, shifts in institutional policies incited employee concerns and downward trends in company culture. In July 2021, Chapek announced that 2,000 jobs would move from Southern California to Orlando, Florida. The movement of 2,000+ employees and families across the company is particularly controversial in light of the fact that remote work options in tech remain popular after COVID-19, and employees are increasingly requesting flexibility in workplace location. Additionally, in November 2022, Chapek announced a hiring freeze and a small number of staff reductions.

Despite these controversies, Chapek's time at Disney was not anticipated to end soon. In June 2022, Disney's board of directors unanimously voted to extend his contract until 2025, with CNN reporting, "Bob Chapek isn't going anywhere." Nevertheless, Disney shocked the world by instituting a leadership change a mere five months after Chapek's contract was renewed.

Changes Again: Back to Iger

On November 20th, 2022, Disney's board announced that Chapek would step down and Iger would return to his role as CEO, effective immediately. Disney's board released a positive statement, thanking Chapek for helping Disney through COVID-19, but internal commentary indicates that leadership was frustrated by Chapek's organizational decisions and Disney's poor overall market performance. In 2022, Disney lost roughly 36% of its value; however, shares rose 9% after the public announcement. Moreover, Iger agreed to serve as CEO for the next two years, with Disney's board noting that Iger is the only one uniquely qualified to serve as CEO due to his prior experience.

Iger held a town hall on November 28th with Disney employees, where he responded to concerns about the shift in leadership and outlined his priorities for his second stint as CEO. Notably, he said his first priority is *creativity*. Soon after reclaiming his role as CEO, Iger reversed some of Chapek's decisions. During Chapek's tenure a new division called Disney Media and Entertainment Distribution (DMED) was established, spearheaded by Kareem Daniel and focused on enhancing streaming services. While the goal of this division was to streamline these services and increase profitability, the reorganization resulted in many creative heads losing power, as content decisions were centralized under Daniel's authority. However, Daniel exited his role and Iger made clear that he intends to restructure operations to put less of an emphasis on streaming. To do this, he has divided Disney into three divisions: Disney Entertainment, which encompasses DMED and other media services, ESPN, and a Parks, Experiences, and Products unit. With this restructuring, Iger aims to provide creative teams with more authority and jurisdiction in the design and dissemination of Disney products. Iger noted that he believes, "storytelling is what fuels this company, and it belongs at the center of how we organize our businesses."

Despite Iger's broad goals for the Company and his apparent increased focus on the team's creativity, he announced, simultaneous with the organizational changes, that Disney would be eliminating 7,000 jobs, which accounts for about 3% of the workforce. While these layoffs are worrying for employees, they are not isolated in the industry; companies like Google, Meta, and IBM have announced widespread layoffs. These job cuts across the industry are attributed to the massive hiring increases that companies saw during the COVID-19 pandemic: as the world increasingly needed virtual resources, companies hired rapidly, and only in the past few months are realizing that they cannot sustain the workforce they have amassed. Immediately following the announcement of layoffs, Disney ran an ad during the Super Bowl, likely costing upwards of $7 million, which has received some criticism from employees and the media at large; however the disdain is not likely to last. In an attempt to assuage employees' fears, Iger once again emphasized his commitment to creativity, and that Disney's new operational structure is necessary to empower creative minds, which ultimately will boost Disney's performance.

Why the Leadership Change is Significant

Perhaps most interesting about this abrupt leadership change is the fact that Iger had seemingly selected Chapek to fill his role. At that time, Iger clearly believed that Chapek would be effective at leading Disney into the 2020s. However, Iger stayed on Disney's board to provide guidance to Chapek and upper management throughout the early stages of COVID-19 through 2021. Iger must have had confidence in Chapek's management as he ultimately took the step back from Disney. Despite this, Iger and Chapek appear to have wildly different approaches to management and organizational priorities.

As Iger mentioned, the most significant matter for Disney in the near term is creativity. However, this broad, sweeping declaration can be difficult to envision in practice. The organizational shift and its aim to provide increasing power to creative heads at Disney will have sweeping impacts across Disney's governance and operations. Furthermore, Iger announced that employees will be expected to work at the office four days a week to enhance employee satisfaction and creativity.

Iger's reinstatement has already resulted in shifts in Disney's governance practices. Firstly, Daniel's termination and Iger's subsequent restructuring all result in the power of Disney's entertainment branch being scaled back. The underlying message for this leadership shift is that Disney needs to emphasize creativity and storytelling; as a result, leadership will make the decisions that most effectively accomplishes that goal. However, despite these promises, Disney's financial performance has necessitated that management find ways to cut costs, and they are choosing to do so in part through workforce reductions. While Iger's message of creativity was initially received positively by the public, employees are expectedly disheartened by the news of the layoffs. In spite of these tumultuous updates, Disney's overall standing in the public eye continues to be increasingly positive. Disney fanatics are invigorated by the governance change, as the increased emphasis on creativity also equates to high-quality content which has been Disney's selling point for decades. Additionally, Iger's commitment to keeping Disney services affordable is an indication to the public that Disney continues to value the customer experience over profit.

Disney and ESG

An emphasis on creativity will have a strong impact on Disney's workforce and internal operations, yielding positive outcomes from an ESG perspective; however, imminent workforce-wide layoffs will have a more negative impact on employee engagement. Iger's public commitments appear to have invigorated employees, particularly those related to creativity. Employees in creative-thinking positions will likely feel empowered to vocalize ideas to improve Disney, as budgetary decisions are back in creative hands. Despite this, layoffs are shown to decrease employee morale and increase stress and burnout, and Disney is not likely to be immune to these challenges. However, Disney's continued commitment to supporting and elevating its creative team, combined with the smaller workforce reductions than those seen at other tech companies, mean that employee engagement may not suffer greatly and those that remain at Disney continue to be committed to its mission. Additionally, if Iger continues to emphasize creativity as a core Disney value, long-term employee engagement and retention could be significant for the success of the company. While Iger's priority is creativity, if employees feel supported and motivated at work, this will translate to stronger projects and ideas, and ultimately, a more profitable business.

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