

## ***Disney's Managers Incentive Scheme***

When Michael Eisner was hired as chief executive officer (CEO) by the Walt Disney Company, his compensation package had three main components: a base annual salary of \$750,000; an annual bonus of 2 percent of Disney's net income above a threshold of "normal" profitability; and a 10-year option that allowed him to purchase 2 million shares of stock for \$14 per share, which was about the price of Disney stock at the time. Those options would be worthless if Disney's shares were selling for below \$14 but highly valuable if the shares were worth more. This gave Eisner a huge personal stake in the success of the firm.

As it turned out, by the end of Eisner's 6-year contract the value of Disney shares had increased by \$12 billion, more than sixfold. Eisner's compensation over the period was \$190 million. Was he overpaid? We don't know (and we suspect nobody else knows) how much Disney's success was due to Michael Eisner or how hard Eisner would have worked with a different compensation scheme.

Companies can learn from this example. Managers are spurred on by incentive schemes that provide big returns if shareholders gain but are valueless if they do not. Since, Managers / Employees often have a strong financial interest in increasing firm value for mutual gains, it will be necessary for companies to consider creative incentive scheme that benefits all the stakeholders involved.

### **Cite this as:**

YouSigma. (2008). "Disney's Managers Incentive Scheme." From <http://www.yousigma.com>.