The Impact of Mergers and Acquisitions on Company Culture: A Case Study of Disney and Pixar Animation Studios

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In 1991, Disney and Pixar Animation Studios began a corporate relationship that would lead both companies to great success in years to follow. Beginning their relationship, Disney and Pixar made an agreement that stated they would produce and distribute one computer-generated animated movie together (Pixar, 2015). That movie was known as *Toy Story*, the world’s first computer animated feature film (Pixar, 2015). Because of the popularity and success of *Toy Story*, which was released in November of 1995, Disney and Pixar developed another contract in 1997 that agreed to jointly produce a total of five movies over the next ten years (Pixar, 2015).

Nearing the end of the Disney and Pixar collaboration deal in January of 2006, the Walt Disney Company announced they would be acquiring Pixar Animation Studios for $7.4 billion in an all-stock transaction (The Walt Disney Company, 2006). Steve Jobs, CEO of Pixar, explained:

Disney and Pixar can now collaborate without the barriers that come from two different companies with two different sets of shareholders. Now, everyone can focus on what is most important, creating innovative stories, characters and films that delight millions of people around the world (The Walt Disney Company, 2006).

The merger between the two top animation movie producers allowed Disney and Pixar to collaborate without any external problems they previously encountered. Although this acquisition greatly attributed to Disney’s success in the animation business, many shareholders worried that the famous Disney movie culture would be compromised for Pixar’s innovative movie generating techniques.
Disney

The Walt Disney Company was originally established as “The Disney Brothers Studio” in October of 1923 when Walt signed a contract with M.J. Winkler to produce a series of comedies that got their foot in the door of the entertainment industry (The Walt Disney Company, 2015). The Walt Disney Company was founded by Walt and Roy Disney, two brothers who had endless creativity and built the foundation of “making dreams a reality”. Disney began by producing wildly popular cartoons such as Mickey Mouse, Snow White and the Seven Dwarfs, and Donald Duck. In the 1950’s, Disney opened their first theme park in Anaheim calling it Disneyland (The Walt Disney Company, 2015). Since Disney’s early days, they have grown to be arguably the most well known name in the entertainment industry. Disney has expanded their empire by owning ABC Television Network, managing 11 theme parks and 47 resorts, producing consumer products and creating interactive entertainment through mobile, Internet and console video games (The Walt Disney Company, 2015).

Walt Disney once said, “You can create, design, and build the most wonderful place in the world, but it requires people to make the dream a reality” (Walt Disney Animation Studios, 2015). In order for Disney to be so successful, they must have extraordinary employees as their driving force. The culture that Disney creates for their employees is vital to the innovation and creativity that makes Disney the most successful entertainment business in the industry. As a company, Disney embraces the values of innovation, quality, community, storytelling, optimism and decency (Disney Careers, 2015). Disney is committed to providing a rewarding, inclusive and supportive work environment in order to create a unified mission to help deliver treasured moments to people around the world (Disney Careers, 2015).
Disney believes there are four interconnected processes that define an organization's culture. These four processes are employee selection, training, care and communication (Disney Institute, 2015). In order to have a successful corporate culture, Disney hires employees who not only have the right skills, but who also have the right behaviors that align with Disney’s company values (Disney Institute, 2015). After selecting the right employee, Disney’s training reinforces their core principles. The care and values defined during training is a direct reflection of Disney’s company culture to employees. Disney believes in the importance of continual education so their employees are able to grow and excel in their roles for the company (Disney Institute, 2015). Along with training and education, Disney values communication because how they care for their workforce determines how closely the employees will align with Disney’s desired culture (Disney Institute, 2015).

**Pixar**

In 1979, George Lucas recruited Ed Catmull from The New York Institute of Technology to head Lucasfilm’s Computer Division, which was a group that wanted to develop state-of-the-art computer technology for the film industry (Pixar, 2015). In 1983, Pixar invited John Lasseter to join their team to work on a short film; Pixar hired him full-time as an Interface Designer the following year (Pixar, 2015). In 1984, Pixar released their first short film called *The Adventures of André & Wally B.*, which featured flexible characters, hand-painted textures and motion blur. Steve Jobs bought the computer graphics company in 1986 and established it as “Pixar” (Pixar, 2015). At this time, Pixar had a total of 44 employees (Pixar, 2015). During this year, the company released *Luxo Jr.*, the first three-dimensional computer animated film to be nominated for “Best Animated Short Film Oscar” (Pixar, 2015). Pixar is currently located on 22 acres in
Emeryville, California and has produced many popular, award winning animated films such as *Monsters, INC, Finding Nemo,* and *Cars* (Pixar, 2015).

Pixar’s success can be accounted to their exceptional company culture that inspires unique ideas, compelling stories and uses cutting-edge technology (Pixar, 2015). Pixar has three defining characteristics that set them apart from other corporate companies. Pixar puts their people first, they focus on a purpose that makes people feel proud, and lastly, they encourage self-expression and diversity of thought (Stallard, 2014). It is important to care about the people, because excellent ideas come from them (Stallard, 2014). Not only that, but Pixar’s purpose to “make great films” is what attracts their shareholders and energizes their employees (Stallard, 2014). Pixar also encourages self-expression and diversity of thought, which allows everyone to contribute their ideas and opinions about everyone’s work, working toward a greater quality film (Stallard, 2014). Pixar places their focus on creating a cultural community atmosphere where everyone works together as a team and communicates openly with all employees.

The characteristic that really sets Pixar’s company culture apart from the rest is the sense of community that they create. Pixar places a lot of trust in the creative abilities of their employees, which allows the minds of the workers to run wild and come up with out-of-the-box ideas for new films. Ed Catmull, Pixar President, explains, “Our philosophy is: You get creative people, you bet big on them, you give them enormous leeway and support, and you provide them with an environment in which they can get honest feedback from everyone” (Catmull, 2008). Pixar has what they call a “Peer Culture” where people at all levels within the company support each other. Pixar culture stresses the ability to freely and openly communicate with anyone and everyone (Catmull, 2008). Pixar also provides a safe environment where sharing ideas and feedback to other people’s work is strongly encouraged (Catmull, 2008). Staying updated with
innovations happening in the community by sending employees to conferences with their ideas connects Pixar to the academic community, and more importantly to people who possess exceptional talent (Catmull, 2008). Pixar employees are the most valuable assets to the company, which is why Pixar works hard to provide an outstanding work environment for their driving force.

Analysis

The merger between Disney and Pixar generated both positive and negative implications for the company culture. Disney Pixar had to overcome challenges in order to remain the top animation movie making company as one. Merging together two large, successful companies has the potential to create barriers in organizational change. If done correctly, there should be no problem in the collaboration between the two companies. However, if done incorrectly, the merger could be extremely detrimental to the company's overall advancement. Here, we will break down how this merger has affected Disney Pixar while the change was occurring and after the change took place.

Strained relationships created during the partnership of Pixar and Disney created in 1997 made the merger between the two more challenging than one would foresee (Barnes, 2008). Steve Jobs and Michael Eisner, CEO of Disney, failed to work together well in the previous partnership that bound Pixar to produce five computer animated feature films for distribution by Disney (Barnes, 2008). Shots were fired between the two egotistic CEO’s who were unwilling to give up their power or dominance in order to work out the relationship between the two companies. The rift between Jobs and Eisner created a lack of trust, among other issues (Barnes, 2008). Employees at Pixar lacked faith in their colleagues at Disney (Barnes, 2008).
After a 21-year long career at Disney, Michael Eisner was released due to increased conflict and issues he was having with employees and company partners (Holson, 2005). Before his oust in 2005, Eisner appointed a man by the name of Bob Iger to President of Disney. When Eisner was released, Iger took over his position as Chief Executive Officer (Barnes, 2008). Iger began quickly and started his work by extending a hand to Pixar and Apple CEO, Steve Jobs, in an effort to restore the strained relationship (Barnes, 2008). This effort to bridge the gap between Pixar and Disney worked out in Disney’s favor. The 10-year partnership between Disney and Pixar was nearing end, and Iger was able to draw up a plan that both parties could agree on for Disney’s acquisition of Pixar. With Iger’s hard work and Jobs’ regained trust in Disney, they were able to finalize the acquisition of Pixar in 2006 (Barnes, 2008).

The timing of the Pixar merge was ideal for Disney. Disney’s animations films had been failing for years and they were trying to find a way to reboot their image. The acquisition gave Disney ownership of the world-renowned computer animation studio that Pixar is known to be. The deal also brought the technology giant, Apple, closer to Disney for future partnership opportunities. Even though the merger showed many positive outcomes, it also brought many questions to the table. Some argued the questions: did Pixar save the Disney name? And also, did Disney lose their company culture in the acquisition of Pixar? Shareholders were left confused as to what Disney and Pixar’s company culture looked like for future films.

Even though Iger was able to merge both Pixar and Disney together successfully, both of these companies are still independent from one another. Disney wanted to stay true to the happy, musical, 2D movies that their fans knew, while Pixar creates another brand of movie with a focus on storyline and action. This caused a problem because each company culture was working toward different goals and visions for their movies, while producing under the same name. An
example of this is in Disney Pixar’s creation of *The Princess and the Frog*. Disney wanted to marry the culture of their standard hand-drawn, musical, princess style movie with Pixar’s exceptional storyline techniques. The film ended up being a flop. People could not see the direction Disney Pixar was going towards. Since acquiring Pixar, Disney also acquired Pixar’s animation techniques and has implemented them into their films. This is causing the original Disney culture to begin to diminish.

Pixar animation studios has saved Disney in many ways by coming in and creating eye catching motion animated movies under the Disney name, when Disney animation studios was trying to find their next big hit. Following the acquisition, Pixar designed successful movie after movie, releasing it under the Disney name. The problem here is that Disney has lost the animation culture they once had. Although Disney still wanted to be Disney, they found that none of their hand-drawn, original movies were catching the eye of the public. Pixar animation movies such as the Toy Story trilogy, the Cars series, and the Monsters Inc. movies were huge hits with consumers. Disney had the choice to continue doing what they know, making mediocre hand drawn movies, or convert to the evolving animation culture by making a new type of Disney movie using the digital pictures that Pixar has used for years. Disney decided to dive headfirst into the new animation culture with their movie *Frozen*. Because they could utilize Pixar’s culture of story lining and exceptional animation, *Frozen* was a box office blowout.

Although Disney is becoming more successful in their animation studios since merging with Pixar animation studios, the question still remains: Has the original culture of Disney animation films been lost in the merger of Pixar and Disney? Or, is Disney simply adapting to their audience by evolving into the new culture that their consumers crave? During the change, some compromises were necessary and the loss of Disney’s original animation culture is clearly
one. Media acquisitions are notorious for failure and they often create internal warfare, but overall, the Disney Pixar merger went surprisingly well.

In a world where failure seems to be the norm of mergers and acquisitions, Disney and Pixar set a great example of how to do a merger successfully. After working together for so many years, Disney saw the business gain they could achieve by officially acquiring Pixar. Disney is now benefiting significantly from the acquisition. The addition of Pixar to Disney enhances their level of animation by setting a new standard of excellence (The Walt Disney Company, 2006). The acquisition also opened up opportunities for Disney to receive full profit from sequel films of already popular and established Pixar animation movies (The Walt Disney Company, 2006). Not only that, but Disney is able to have full access to developing theme park attractions from the popular movies that they make together (The Walt Disney Company, 2006). Disney can also capitalize on developing video games, merchandise and other consumer products from Pixar movie characters (The Walt Disney Company, 2006).

To assure the merger went as smooth as possible, Disney kept the Pixar’s higher-level management in place to guide the change and mesh the two different company’s visions together as one. This decision was also vital for the growth of trust that was necessary in order for Jobs to okay the merger (Barnes, 2008). In this exchange, Steve Jobs had a lot of latent power, which according to Laurie K. Lewis in Organizational Change, is the ability to use threat to exercise power. Because Jobs had lost so much trust in Disney’s company, Iger had to agree to a set of guidelines established that would ensure the protection of Pixar’s creative culture in order to make the acquisition go through (Barnes, 2008). If Iger did not agree to protect Pixar’s culture and employees, Jobs could have made the threat to not go through with the merger deal. Even with the agreements made, trust did not come easy, Ed Catmull, Pixar President, explains that it
took about a year before Pixar was able to collectively let down their guard to Disney (Barnes, 2008).

By giving top managers at Pixar positions at Disney, Disney Pixar studios were able to create a strong guiding coalition to implement this change. Disney gave Pixar president Ed Catmull the position of President of Pixar and Disney animation studios, Pixar Executive Vice President John Lasseter was promoted to Chief Creative Officer and Principal Creative Advisor at Walt Disney Imagineering, and last, Pixar Chairman and CEO Steve Jobs was appointed to the Disney Board of Directors (The Walt Disney Company, 2006). Allowing Pixar’s top managers to come over to Disney gave Disney a whole new set of company leaders to collaborate with in creating new innovative ideas.

A reason that the Disney and Pixar merger went well is because they had outstanding leadership who developed a common vision and worked toward the goal of creating stories, characters and films that attract the millions of Disney consumers around the world (The Walt Disney Company, 2006). The Disney Steering Committee was established to ensure that Disney-Pixar had people who could create an organizational environment and culture necessary for growth, as well as encourage the development of creative thinking and problem solving (Haley and Sidkey, 2009). The committee consists of John Lasseter, Steve Jobs, Robert Iger - Disney CEO, Dick Cook - Walt Disney Studios Chairman, Tom Staggs - Disney's Chief Financial Officer, and Edwin Catmull (Haley et al., 2009). This team was also established to make sure that Pixar company culture remained the same in the merger with Disney. This team created by Disney Pixar has positional power, expertise, credibility and leadership abilities which is the first step in putting together a team that can direct change according to John Kotter, author of *Leading Change*. 
Implementing change without a strong group of individuals with the ability to create the right vision and develop new approaches in the organization’s culture is nearly impossible (Kotter, 2012). Disney Pixar designed teams that consisted of managers and leaders, which are important because leaders inspire innovation and ideas while managers are able to carry out the mission. According to John Kotter (2012), successful transformations start with a few people and then will grow depending on how large the organization is. In this case, Disney-Pixar was developed a small but mighty guiding coalition who demonstrated the ability to work together and mesh both company cultures to work towards their joint vision of creating top of the line animation movies.

By developing a team, Disney Pixar opened up to the opportunity to discuss ideas or issues that they had about the merging company cultures. The transparency that Disney Pixar encouraged in the team meetings is what allowed growth within the company. The Disney Steering Committee also developed a sense of trust for each other that enabled them to work productively. Overcoming the lack of respect and trust that was an issue early on allowed Disney Pixar to collaborate as one unit and achieve a lot more as a joint effort. This sense of trust among the guiding coalition was vital in the success of the merge. Kotter (2012) explains that the typical goal of a guiding coalition is a commitment to excellence, a real desire to make their organizations perform to the very highest levels possible. The steering committee had high expectations and was fully committed to the growth of the company; the committee shared a common objective and trusted that their individual companies could work together successfully. Because of this guiding coalition, Disney and Pixar were able to work as a team to further the growth of both companies as one.
Teaching Notes

Overall, the merger between Disney and Pixar has been successful, however, mixing the two company cultures is an issue that remains unresolved. Strong egos and issues of power of higher up managers and people associated directly with the change had a negative effect on the merger. Because of Eisner and Jobs troubled history, Jobs was not eager to jump on board with the merger to Disney. Kotter (2012) says that if the head or CEO of the organization is not on board with the change, then a major change may be impossible. Eisner almost lost Disney’s partnership with Pixar because he was unwilling to hash out the differences and set personal issues aside. Eisner and Jobs thought they individually knew what was best for their company, which created issues of power distance between the two companies. When Iger was brought in, he showed what Lewis explains as expertise power – communication competence, professional capability and effectiveness on the job – which allowed Iger to patch the broken relationship with Jobs and Pixar in order to close the acquisition. Looking forward, Disney Pixar can view this as a teaching moment, and learn that setting aside ones own thoughts and ego is important in order to further the company’s achievements.

In order for the cultures to work together flawlessly in the future, a vision for the two companies must be developed. In *Leading Change*, Kotter (2012) explains that visions are the most important part of producing a useful change by helping to direct, align, and inspire. Although both companies are known for their individual productions and movie cultures, Disney and Pixar need to work together as one to establish an overall vision for their company. Clarifying the direction of change is important because people may be confused or in disagreement wondering if the merger is really necessary, however an effective vision and strategy will help resolve this (Kotter, 2012). By establishing a vision, employees will better
understand their purpose and be able to productively work toward a common goal as Disney Pixar Animation Studios.

A great way to blend both Disney and Pixar company culture is to create teams that incorporate employees from both companies who will work towards their newly established vision. The “Steering Committee” that Disney created could serve as a model for how the two company cultures can work together to make each other better (Kotter, 2012). This team was developed so that Pixar’s culture would remain the same when it merged with Disney. Disney Pixar could greatly benefit by implementing a range of teams that had members from both Disney and Pixar who worked together sharing strategies and ideas in the animation studios. Lewis (2011) explains a general strategic approach for change that uses an autonomous-adaptive approach by implementing a team that empowers other employees in designing the best use and form of change and reinvents the change to suit organizational and or stakeholder needs. This would blend both cultures together as one to create a more unified and understood vision for the company and allow for any necessary changes they deem fit along the way.

Although these recommendations may not solve all issues between the divided cultures of Disney and Pixar, it is a start that can guide future changes and improvements. Generating small wins and seeing little improvements here and there is what creates momentum that is needed in generating a big change. By having the employees focusing on the small wins, it gives them momentum and encourages them to want the overall change (Kotter, 2012). Seeing small gains gets employees excited, so by starting with these recommendations, Disney Pixar can work together enthusiastically towards a more united company culture.
Conclusion

The merger between the Walt Disney Company and Pixar was largely successful. Disney acquiring Pixar has majorly benefitted their animation studios by bringing innovative ideas and technologies to Disney themed movies. It combined two of the most successful animation companies in the business, and solidified an already existing partnership. Although the blending the two different corporate cultures has been a hard transition, Disney Pixar will undoubtedly work through these issues in order to continue their success. Nothing extraordinary happens overnight, Kotter taught us that successful transformation takes a long period of hard work and dedication to the change. Disney Pixar will eventually establish a workable vision for their company that encompasses the best characteristics and qualities of the individual company’s.
References


