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Rupert Murdoch and the Downside of Voting Control

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Rupert Murdoch owns voting control of both News Corporation and 21st Century Fox. Although getting on in years (currently 85 years old), there has been no suggestion that he has lost his business mojo—rather, the discussion frequently is about his likely successor—one of his two sons, James or Lachlan—and the question is whether either one has the capacity to run this media empire with same skills as that of their father.

A recent article in the New York Times entitled “A Swashbuckler Finds Itself Back in Familiar Waters”, however, sheds a less favorable light on the management skills of Mr. Murdoch and his boys. First, we had the phone hacking scandal in Britain that forced the closure of The News of the World and which ended the careers of a number of well-known executives and sent several of them to jail. Rupert and his sons were forced to testify before British Parliament and make the case that they knew nothing about the transgressions. Ultimately, this scandal led to the separation of News Corporation (print) and 21st Century Fox (television and movies).

Just recently, Mr. Murdoch’s oversight of one of his companies—Fox News, a subsidiary of 21st Century Fox, has also been called into question with the salacious allegations of sexual harassment and misconduct by Roger Ailes and some of his associates. Complicating matters are the significant financial settlements (all confidential, of course) doled out over the years by the company in response to allegations about Mr. Ailes’s conduct. It is not just the behavior of one his top lieutenants—as was the case in the London hacking case—that has been called into question but of the corporate complicity in the cover-up of the transgressions.

You have to wonder if the voting control that Mr. Murdoch wields over both these companies has something to do with both problems. Mr. Murdoch & Sons have once again mounted the “hear no evil, see no evil” defense. After all, they say, these are very large corporations and they can’t be expected to know everything that is going on in every corner of their empire. This strains credulity when you consider that both scandals took place amongst their most highly visible and, in the case of Fox News, highly profitable business units.

So what is going on here? Is it the obsessive focus on succession that keeps the family so preoccupied? Is it a weak board, put in place by the family, which is unable to demand accountability from the CEO and other top executives? Is it hubris? Is it just naked power and being above it all?

Other publicly listed family-controlled companies have encountered similar problems—the Volkswagen emission cheating scandal and the dreadful financial performance at Sumner Redstone’s Viacom come to mind. You also have the outright thievery at family controlled Rigas Communications. You have to wonder whether voting control without comparable economic ownership is part of the problem. Or is it just a few bad apples in the family business apple barrel?

The New York Times article noted above described Murdoch’s empire facetiously as a “pirate ship” and there may be more truth to that than first meets the eye. The adage that “more pirates are killed sharing the booty than in finding it” also seems to have application in this instance.

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