Out of Focus

Kodak's Corporate Culture and Path to Digital Obsolescence

Rise and Fall of Kodak

[redacted]

1 Introduction

The dawn of digital innovation reshaped photography, challenging Kodak's belief in the appeal of "coloured prints," as expressed by then-CEO Colby Chandler. Kodak's commitment to film foreshadowed the company's struggle against the uprising of digital photography. By 2003, the company saw film sales dropping by 5% from the previous year and revenues by 3%, marking the beginning of a continuous downturn (Gavetti et al., 2005). This report delves into Kodak's strategic journey, examining its culture and decision-making within the frameworks of the Cultural and Design Schools of strategy. Unravelling how Kodak's deep-rooted values and choices led to its missed opportunities. The analysis is structured into two sections: firstly, examining Kodak's organisational culture and its resistance to innovation through the Cultural School, and secondly, evaluating strategic leadership decisions and misalignments with the Design School. Highlighting the missteps that led to Kodak's strategic failure to enter the digital era.

2 Cultural School

2.1 Organisational Culture and Change

In business, culture encompasses the values and beliefs that, through time, have moulded an organisation's internal workings. Edgar Schein identifies this as a set of assumptions a group has internalised to guide adaptation and integration (Schein, 2004). This belief provides a guideline for members to perceive and tackle challenges. Through the lens of the Cultural School, Barney noted that an organisation's internal characteristics drove performance. However, culture is a double-edged sword; while foundational, it can foster resistance to change, risking becoming obsolete in fast-evolving industries (Barney, 1986).

Kodak, a pioneer since 1888, found its root in film-centric culture a liability in the digital era. This resistance to change was not just cultural but strategic. It was reflected in its past focus on a 'razor-blade' model, where profits from film sales were prioritised despite a declining market share from 60% in 1990 to 33% by 2002, **Appendix 1**. Kodak's leadership, often promoted from within and moulded by Kodak's manufacturing ethos, exhibited a resistance to change. This homogeneity in leadership strategy and reluctance to innovate digitally, despite developing the first digital camera in 1975, revealed a strategic misalignment with market trends. "They were a film company at heart... Equipment was ok as long as it drove consumables," one executive commented, highlighting strategic inertia towards digital transformation (Gavetti et al., 2005). Meanwhile, competitors like Fuji and Sony capitalised on more adaptable cultures, gaining market share and increased revenues.

Kodak's attempts to explore new business opportunities through R&D often reverted to film-dependent hardware such as the Photo CD. Even as Kodak sought to diversify its core businesses into medical imaging and IT, the prevailing culture that adhered to film hindered these efforts. Recruiting George Fisher as the first 'outsider' CEO was a move to break the cultural norm. However, Kodak has already lagged in the digital market race.

Kodak's story underscores the challenges an organisation faces when their culture, grounded on past successes, impedes the agility and innovation necessary to navigate the evolving times. Their failure to transform its early digital innovations into core competencies crucial for market leadership and competitive advantage in the digital era highlights a missed strategic opportunity. Prahalad and Hamel suggested that core competencies, collective learning, and coordination of diverse skills are vital for a company's competitive edge (Prahalad & Hamel, 1990). Kodak's cultural obsession with film, overlooking the strategic importance of evolving digital capabilities, contrasts with their competitors that adjusted their core competencies in response to changes. This discrepancy emphasises Kodak's inability to align its organisational culture to the dynamic digital landscape. It illustrates the impact of organisational cultures on strategic decision-making and technological adoption.

2.2 Impact of Corporate Values on Innovation

Analysing Kodak's corporate culture reveals how its values, critical during its film era success, later impeded digital innovations. These values, central to decision-making and Kodak's identity, became obstacles as the market shifted towards digital photography. The RBV developed by Jay Barney states that an organisation's sustainable competitive advantage derives from its unique resources and capabilities, this view emphasises the internal strengths of a company as the foundation for strategy development. To practically visualise this, the VRIO framework is utilised, highlighting Kodak's strategic misalignment by examining its potential resources and capabilities against evolving digital challenges (Barney, 1991).

VRIO Analysis					
Resource / Capability	**Value (Is it valuable?)**	**Rarity (Is it rare?)**	**Imitability (Is it hard to imitate?)**	**Organisation (Is the business organised around it?)**	**Justification**
Digital Imaging Technology	Yes	Yes	No	No	Kodak’s Early advancements in digital technology were valuable and rare but underutilised due to company’s focus on film
R&D Capabilities	Yes	Yes	Yes	No	Significant investment in R&D was not aligned with digital innovation due to the company’s entrenched values favouring film photography.
Film Technology & Manufacturing Capabilities	No	Yes	Yes	No	Kodak's expertise in film technology was initially difficult to imitate and well-organised but failed to adapt to digital advancements.
Brand Recognition & Market Presence	Yes	Yes	Yes	Yes	Kodak's brand and market dominance were valuable assets that the company struggled to leverage in the digital market.
Global Distribution Channels	Yes	Yes	No	Yes	Although valuable and rare, Kodak's extensive distribution network was not effectively repurposed for digital products.

Table 1: VRIO Analysis of Kodak's Resources and Capabilities

The VRIO analysis reveals Kodak's failure to shift strategic focus despite owning valuable, unique digital imaging resources. Despite pioneering the first electronic image sensor in 1986, Kodak's persistent film-centric business model presents a clash between its innovation capabilities and strategic direction. "We had the technology to compete in digital... We were a film company at heart," a Kodak executive admitted, highlighting a significant misalignment that prevented the effective exploitation of digital advancements, a limitation of culture (Gavetti et al., 2005).

Kodak's strong brand image and vast global network, combined with abundant R&D investment, reaching $779 million in 2001, showcased its potential to lead in the digital market (**Appendix 2**). Yet, its persistent focus on the declining film market curtailed leveraging these assets effectively. Digital innovations, such as the Photo CD, intended to merge film and digital, ironically anchored Kodak's future to its past. Especially being a pioneer in digital innovation, Kodak could've exploited new revenue channels in the digital realm.

Strategically Kodak's strong brand image could've fostered a positive reception to new digital products, leveraging its history to tap into markets inaccessible to competitors (Gupta et al., 2020). Despite being at the forefront of digital camera technology, Kodak's hesitation to commit resulted in a missed opportunity. This strategic obsolescence resulted in Kodak's decline in the US digital camera market, from a 17% share in 1998 to a 13% share in 2002 (**Appendix 3**). Kodak's film and technology and production capabilities, though leading in the era of film photography through vertical integration, did not pivot towards digital innovation, reflecting an oversight to leverage these assets in a transforming landscape.

This analysis, grounded in the Cultural School, illustrates how Kodak's traditionalist values limit its strategic innovation. The VRIO framework shows the division between Kodak's assets and their utilisation in sustaining competitiveness. Prahalad and Hamel emphasise that core competencies must evolve with market innovations (Prahalad & Hamel, 1990). Kodak's failure highlights their need to realign their values with innovation imperatives, underlining the delicate synergy between cultural values, strategic asset utilisation and maintaining a competitive edge in an evolving industry.

3 Design School

3.1 Strategic Leadership and Decision-Making

Kodak's strategic decisions, viewed through the Design school, revealed leadership challenges during the digital transition. The Design School of Strategy Formulation, attributed to the work of Kenneth Andrews, analyses the strategic management process as a logical design to align internal capabilities with external possibilities (Sarbah et al., D., 2014). This approach, emphasising the role of top management in formulating strategy, brings into focus the crucial decisions made by Kodak’s leadership.

Kodak, under the leadership of CEO Daniel Carp, epitomised the Design School's principle, where strategic decisions were heavily centralised. Having joined Kodak in 1970, Carp is deeply entrenched in Kodak's traditional film business and corporate culture. During Carp's tenure in early 2000, Kodak faced a declining film market, with sales dropping by 5% from 2001 to 2002 (Gavetti et al., 2005), indicating an industrial shift towards digital photography, a transition that Kodak was slow to embrace despite being a pioneer. Carp's efforts to guide Kodak into the digital domain were buffered by the company's attachment to its film-centric model. Highlighting a strategic limitation of the Design School noted by Mintzberg, where a single-minded, controlled and top-down strategy may struggle to adapt to external opportunities (Mintzberg, 1990). Although Kodak, under Carp, ventured into digital cameras and online photo services, the effort lacked the assertiveness required to dominate the emerging digital market.

Fisher's appointment as the first 'outsider' CEO marked a strategic shift, focusing investments in digital innovations and streamlining Kodak's digital and traditional film sectors, embodying the Design School's principles of deliberate planning and strategic fit for strategy formation. Nonetheless, Kodak struggled to fully transition its "razor-blade" culture and film-centric business model, revealing the challenge of aligning a rooted organisational culture with a new strategic vision, as "Many insiders resisted Fisher's initiatives" (Gavetti et al., 2005). This difficulty conflicts with the Design School's principle that "structure follows strategy," highlighting its inconsideration of the complexities of adapting an organisation's architecture to support strategic shifts. (Mintzberg, 1990). Kodak's leadership journey underlines the need for strategic leadership to not only devise but also dynamically adjust strategies to align with market shifts. Emphasising the critical balance between leadership, flexibility and adaptability in strategic management.

3.2 Strategic Misalignment and Lost Opportunities

Further understanding Kodak's strategic misalignment and lost opportunities can be done through SWOT analysis, directly correlating with the Design School's emphasis on strategy formulated from the top and the need for alignment with internal and external factors (Teece, 2018).

<table>
<tr><th colspan="2">SWOT Analysis</th></tr>
<tr><th>Strengths</th><th>Weaknesses</th></tr>
<tr><td>Strong Brand Recognition
Positive Brand Image
Pioneering digital camera technology
Effective R&D Budget and Assets
Extensive patent portfolio</td><td>Organisational culture resistant to change
Heavy reliance on film-based revenue
Delayed response to digital shift</td></tr>
<tr><th>Opportunities</th><th>Threats</th></tr>
<tr><td>Rising digital market
Growing consumer demand for digital photography
Potential to lead in digital printing and online photo services
Expansion into emerging markets</td><td>Rapid technological advancements by competitors
Shift away from film to digital formats
Increasing competition in the digital space
Decline in traditional film sales</td></tr>
</table>

Table 2: SWOT Analysis of Kodak's Position in the Digital Transition

Kodak's strengths, such as its strong brand recognition and pioneering digital camera technology, positioned it for success in the digital era. However, its weaknesses, particularly its heavy reliance on film-based revenue and organisational culture resistant to change, prevented it from capitalising on the digital market's growth. Opportunities for Kodak were abundant in the rising digital photography market, and the potential to become its market leader was clear. However, Kodak's delayed transition, as highlighted in the previous analysis, underscored its strategic misalignment. Threats, including rapid technological advancements by competitors and the industry's shift away from the film, further pushed Kodak's downfall. Kodak's late entry allowed competitors to dominate the market it could have led. Based on the Design School's emphasis on strategic planning, this analysis showcases how Kodak's failure to align its internal strengths and weaknesses with external opportunities and threats led to its decline.

4 Conclusion

In conclusion, Kodak's journey from an undisputed leader in film photography for almost a century to its struggles in the digital era encapsulates a profound need for strategic adaptation. Kodak's fanaticism for film, as illustrated by its conflicting leadership decision-making and resistance to change, ultimately limits its ability to effectively adopt emerging digital opportunities. Despite possessing pioneering digital technology and a strong brand image, Kodak's leadership, grounded by the Design School's principles, failed to realign the organisation's strategic focus towards the digital market. This strategic alignment, analysed through a VRIO framework and SWOT analysis, highlights the critical importance of adapting core competencies in response to market shifts. Kodak's failure highlights the need for organisations to foster a culture of innovation and flexibility, ensuring that deeply rooted values and strategic decisions are progressively reassessed and evolved to maintain competitiveness in the rapidly evolving digital industry. Had Kodak embraced its digital innovations more wholeheartedly and adjusted its strategic approach away from its film-centric culture, it might have sustained itself as a market leader in the digital age.

5 References

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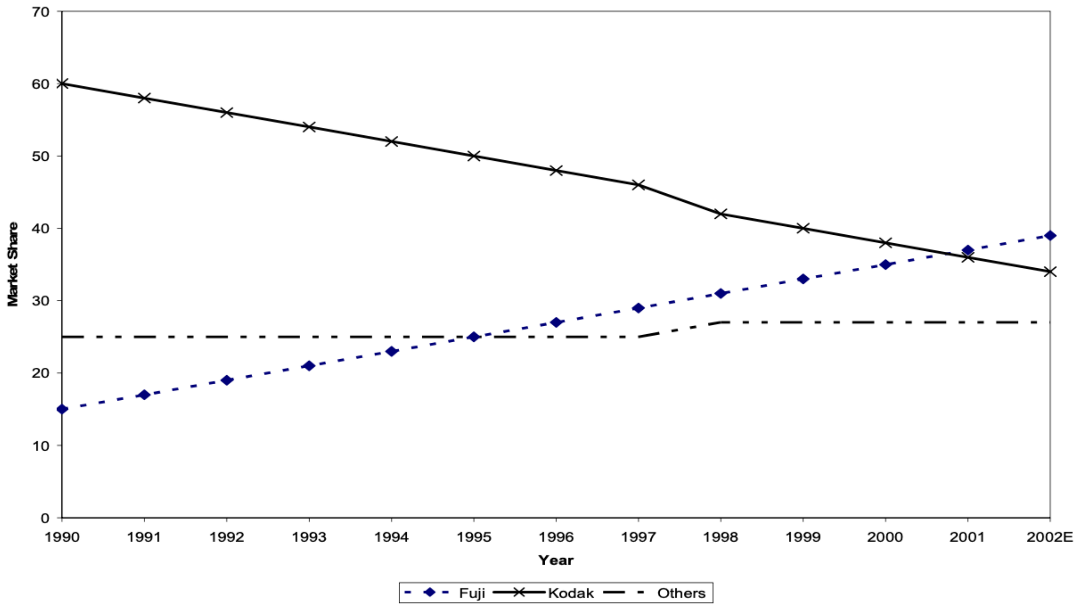
6 Appendix

Appendix 1: Worldwide Film Market Share, 1990 - 2002E (Unit Market Share, in Percent)



Source: Adapted from Merrill Lynch and PhotoMarket

Appendix 2: Eastman Kodak R&D Spending, 1982 - 2001 (in million $)

	Sales	R&D	R&D / Sales
1982	10,815	710	6.56%
1983	10,170	746	7.34%
1984	10,600	838	7.91%
1985	10,631	976	9.18%
1986	11,550	1,059	9.17%
1987	13,305	992	7.46%
1988	17,034	1,147	6.73%
1989	18,398	1,253	6.81%
1990	18,908	1,329	7.03%
1991	19,419	1,337	6.89%
1992	20,183	1,419	7.03%
1993*	16,364	1,301	7.95%
1994**	13,557	859	6.34%
1995	14,980	935	6.24%
1996	15,968	1,028	6.44%
1997	14,538	1,230	8.46%
1998	13,406	922	6.88%
1999	14,089	817	5.80%
2000	13,994	784	5.60%
2001	13,234	779	5.89%

* Divestiture of Eastman Chemical Company

** Divestiture of non-imaging health businesses

Source: adapted from company's reports

Appendix 3: U.S. Digital Camera Market Share, 1998 - 2002 (% of Units Sold)

	1998	1999	2000	2001	2002
Sony	59%	53%	28%	24%	34%
Kodak	17%	27%	13%	15%	13%
Olympus	9%	9%	18%	15%	20%
HP	5%	3%	4%	14%	5%
Fuji	1%	2%	5%	3%	4%
Canon	2%	1%	7%	5%	9%
Nikon	NA	NA	4%	4%	4%
Other	5%	6%	21%	20%	11%

Source: Adapted from Credit Suisse First Boston, 2002