

# Leading and managing change business essay

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Kodak Case StudyA Diagnosis of the main change challenges and a critical evaluation of the key change actions Kodak undertook to address those challenges

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## **Introduction**

Founded in 1888 by George Eastman, the Eastman Kodak Company, commonly known as Kodak was an American multinational imaging and photography company, which held a dominant position in sales of photographic film. Unfortunately, due to a variety of reasons, Kodak began struggling financial in the late 1990s, and in 2012 filed for Chapter 11 bankruptcy protection (REFERENCE). This report examines the events that befell the company between 1975 and 2012 and puts forth an argument for why the company collapsed.

## **Disruptive Technology**

By 1976, Kodak controlled 90% of the film market and 85% of camera sales in the United States. But just five years later, Sony Corporation announced that it would be launching the Mavica, an entirely filmless digital camera that would display pictures on a television screen, and this marked the start of an upheaval of the market and the decline of Kodak (REFERENCE). The CEO at the time, Colby Chandler declared that the Mavica was not a true threat as

people " like colour prints" and believed that if necessary, Kodak could introduce its own digital camera. Despite this, Gavetti et al. (2005) quote an internal manager from Kodak who said that the news " sent fear through the company", with the immediate reaction being " my goodness, photography is dead." Interestingly, Kodak had developed a digital camera as early as 1975, the very first of its kind, but the product was dropped for fear that it would threaten Kodak's photographic film business (REFERENCE). This is the starting point of a long decline for the company, as they became paralysed with fear at the disruptive technology introduced to the market, and failed to adapt to changing events. Disruptive technology was a term first used by Harvard Business School professor, Clayton Christensen in his 1997 book, " The innovator's Dilemma", in which he postulated that new technology can be split into two categories – sustaining, which relies on incremental improvements to an already established technology (Increased efficiency of petrol engines), and disruptive, which lacks refinement because of its youth, and thus has limited appeal to the market (the homes computer for example) (REFERENCE). Kodak was a classic case of a large corporation which knew its market well, and thus wanted to stay close to their existing customers. As such, they had trouble capitalizing on the potential benefits created by low-margin disruptive technologies (REFERENCE).

## **The Digital Revolution**

By the middle of the 1980s, the digital revolution was taking off, and there were no outward signs that Kodak knew what to do about it. Instead of focusing its strategic attention of the emerging digital technologies, the company was making odd manoeuvres, like acquiring the medical giant

Sterling Drugs for \$5.1 billion and trying to establish a presence in batteries (REFERENCE). Sterling Drugs had little connection with Kodak other than its medical imaging unit, which Kodak correctly predicted would balloon in the future (REFERENCE). But acquiring the entire company was proven to be a disaster, a financial black hole which resulted in the off-loading of the entire company just six years after purchase. Likewise, Kodak took a heavy beating in the battery markets from industry leaders Duracell and Eveready, and eventually sold off its own division, Ultra Technologies, at yet another financial loss (REFERENCE). In its traditional film business, the company was generating mounting losses as competitor Fujifilm outsold Kodak across key markets. Brand partnerships were no longer secure, and Kodak seemed to be competing in too many markets and losing in all of them (REFERENCE).

### **Kodak in the 90s**

By the 1990s, Kodak seemed to be on an inevitable decline, but suddenly decided to enter the consumer digital tech business with its "Photo CD", in an attempt to define the industry standard for a digital imaging medium (REFERENCE). The company invested millions trying to make it work, but didn't seem to realise that there wasn't a market for what it wanted to sell. The company first approached the professional photojournalism market with a \$13,000 digital camera that, but it was slow to move into the consumer market and fell behind competitors that were working to making the technology affordable to casual users (REFERENCE). When Kodak eventually started to look into the digital technology as a business, most of the 'old guard' of the corporation had retired or moved on, and this forced the company to recruit from other companies to try to develop an image as a

digital leader (REFERENCE). The problem Kodak would face in its new ventures was that it was too late to own any part of the market. Whether fighting for market share in the printer or digital camera markets, it was always one step behind established players (REFERENCE). The investment needed to compete in those markets generated a huge debt load for the company, which eventually began to outpace their ability to generate income (REFERENCE). The fall of the company that is a striking commentary on America's industrial base. Outdated, inflexible and unable to adapt to the changes of disruptive technologies, once great companies like Kodak can't survive without exhaustive restructuring (REFERENCE).

## **What Went Wrong: The Main Issues**

### **Issue One – Cognitive Inertia**

From the history of the company outlined above, it seems clear that the company was plagued by four main issues in the way that they attempted to navigate the waters of change. The first of these was Cognitive Inertia, a phenomenon described by (SOURCE) as a predisposition towards accepting ideas and beliefs which have already been formed. Based on the testimonials and history of the company, it seems clear that the dangers faced by the company were significantly worsened by cognitive inertia across the business. Huff et al. (1992) claim that the phenomenon is induced by an individual being exposed to an artificially stable environment for an extended period of time. The phrase 'artificially stable environment' would be a good description of Kodak's position for much of its existence; dominant within its market. In 1981, when Sony introduced their first digital camera, Kodak's head of market intelligence, Vincent Barabba, conducted an

extensive research effort into establishing the credibility of the threat posed by this new technology. According to Barabba, the study produced mixed results, but established that the technology had the potential to completely replace Kodak's established film based business (REFERENCE). The only 'good' news as such, was the transition in the market was likely to take some time, and Barabba informed the CEO that the company had roughly a decade to achieve a proper transition to digital (REFERENCE). The problem was that during the next decade, Kodak seemed to do remarkably little to prepare for the transition, choosing to look at improving the quality of film using digital technology, rather than converting to the new medium. This strategy continued despite Kodak developing the first mega-pixel camera, in 1986, one of the milestones that Barabba's study had forecasted as a tipping point in terms of the viability of standalone digital photography (REFERENCE). In 1989, Kodak had a change to make to show it was serious about making the transition when the then CEO, Colby Chandler, retired. The choice was between Phil Samper and Kay Whitmore. Whitmore was a well-respected businessman from the traditional film business, where he had worked for thirty years, whilst Samper was reported to have a greater appreciation of the opportunities offered by the newly developing digital market. When the board chose Whitmore, they sent a clear message to the market, encapsulated by a quote in the New York Times" Mr. Whitmore said he would make sure Kodak stayed closer to its core businesses in film and photographic chemical" (New York Time, 1989). It could be argued that it was the job of senior management to avoid the issue of cognitive inertia however (SOURCE). Whilst large parts of the population are uncomfortable with situations of change and ambiguity, (REFERENCE) argues that if <https://assignbuster.com/leading-and-managing-change-business-essay/>

communication is clear, and participation is encouraged, then cognitive inertia can be avoided, helping the senior management to enact the changes they needed to make.

### **Issue Two: Acting as though ‘ they were the market’**

The history of Kodak shows a company who once had tremendous hold over the photography market – a global colossus who was a recognised authority in the industry. But no colossus lasts for ever, and as Kodak’s power began to wane, they foolishly chose to ignore the signs of decline and continue to attempt to act as a dominant force within the market. The Photo CD is once example of this behaviour, which highlights a complete inability on the part of the company to realise what was happening in their market. Relying on a traditional profit generation method called the ‘ razor and blades business model’, Kodak attempted to sell one good at a low price so that they could sell a complementary good at a high profit margin (REFERENCE). Despite having had great experience with this strategy in the past, the market was moving towards re-writable memory, leaving Kodak’s product unsold. As the company’s market share continued to decline, the Photo CD was gradually relegated to the status of a failed product as consumers stopped following the ‘ trend’ which Kodak had attempted to start (REFERENCE). When Kodak eventually accepted the realities of the market, they had neither the expertise, nor the experience to understand digital cameras. Although significant resources were utilised to attract the talent the company needed, they seemingly insisted on maintaining the profit margins generated by the old film business, but this was an almost impossible task due to the nature of film. The money the company was able to generate

under its old model could not immediately be matched by the smaller margins of digital, and so the company outspent itself.

### **Issue Three: Failing to engage the whole company in change**

In 1988, Kodak bought Sterling Drug for \$5.1B, deciding that it wanted to be a chemical business, with photography running alongside it. From the position of the CEO, that may have seemed like a sensible diversification, but the company was never able to make the business work, and eventually sold Sterling at half its original value (REFERENCE). George Fisher is a prime example of the failure to engage the company. When he joined the company in 1993, he set out to encourage diversity and improve the company's ability to deal with digital technology. In a 2006 interview, Fisher blamed the middle managers for being too resistant to change, but some scholars argue that this resistance is often triggered by a lack of communication (REFERENCE). It is a widely acknowledged fact of humanity that people find change situations and ambiguity threatening (SOURCE). (REFERENCE) argue that change management relies upon employees trusting their actions will have the desired effect, and involving all tiers of the company in the process. In his 2006 interview, Fisher states that middle management was stuck with legacy thinking and could not see the benefit of following the changes senior management were attempting to enact. Various sources claim that the sales and middle management of Kodak did not fully respect the work of the research and development department, considering them a black hole into which money was poured. Despite the department developing a number of successful technologies throughout the 1990s, most were never brought to market, as R&D requires the support of the salesmen in order to reach



consumers (REFERENCE). This lack of communication was crippling to the change management efforts which senior management were attempting to enact, highlighting the importance of a strong level of communication both up and down the organisation structure (REFERENCE).

## **6) Conclusion: The failure to enact change**

Diagnosing

### **Explaining**

#### **ENACTING**

(Beech and MacIntosh, 2012) Beech and MacIntosh (2012), argue that the most important part of change management is the ability of a company to enact change. From the evidence put forward in this essay, showing the downfall of Kodak from photography colossus to bankruptcy, it is clear that the company was not able to enact the changes required to survive. The initial diagnosis by Matterson in 1979, supported by the research of Barabba in 1981 was not heeded due to the cognitive inertia which was crippling the company. The company failed to realise that it was no longer a dominant force within the market, and tried to dictate to the market what it wanted with the Photo CD. With competition in the form of Fuji Film eating up their market share, this strategy was never going to work, as a company needs to have a truly dominant position in the market to be able to control it in this fashion (Packard and Miller, 1957). Each CEO in Kodak would complain about their predecessor's legacy in failing to transform the company into digital, would declare their intention to do so, and then fail to implement that change. Kodak presided over many of the technological breakthroughs in the

industry, and yet when presented with market research highlighting the risks and opportunities of the digital, consistently failed to make the right strategic choices.