

# A Case Study Report of KODAK: Failure to Embrace Digital Innovation

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## EXECUTIVE SUMMARY

Due to the failure in transitioning from traditional film to digital technology, Kodak, was once named a leader in the industry of photography. Despite developing digital camera, this company was reluctant to adopt and pursue digital innovation because of fears of damaging its profitable business film. This reluctance brought the company into abyss of business failure as their competitors adopted the digital photography market—stemming from a fear of cannibalizing its 70% market share in global film—led to an avoidable business failure. Kodak could have addressed this hurdle by adopting a diversified digital strategy (e.g., investing in R&D, a dedicated segment for digital transformation, and business partnership with other company pioneer in digitalization) at time it was first introduce to the market. Acceptance of digital innovation, while progressively phasing out traditional film products, would have better placed Kodak to compete in the embryonic market.

Kodak's internal resistance to change and heavy dependence on legacy products, which highlights critical lessons in innovation strategy, made it difficult for them to adapt to digital trends. As mentioned in the study of disruptive innovation by Christensen's theory which underscore the need for traditional firms to embrace new technologies proactively. Evidence found that companies, like Canon and Sony, focus on flexible and responsive approaches to emerging technologies were able to capture material market share in digital photography unlike Kodak who fell behind. The journey in business of Kodak emphasizes how important adaptability is, in the world of disruptive technology. Those firms in similar situations should invest in future technologies and foster an innovation-driven culture regardless how it will impact the legacy products. This mirrors an opportunity towards long-term sustainability and profitability.

**Keywords:** Case Study; Digital; Innovation; Kodak;

## INTRODUCTION

The situation of Kodak, a firm once named synonymous to photography, depicts an instructive story of how even a giant company can stumble when they contest to changes of technology and innovation. Kodak was founded by George Eastman in 1888 which became equivalent with photography, through its high-quality film products, dominates the market and established brand identity as “Kodak moment” (Eastman Kodak Company, 2021). Nevertheless, by the late 20th century, the firm's traditional film business faced an observed threat from the appearance of digital technology, a field that Kodak itself initiated in the 1970s however reluctant to embrace completely (Lucas & Goh, 2009). Kodak's reluctance, notwithstanding of its innovation of the digital camera, to disrupt its gainful film business contributed to its ultimate failure. Kodak's failure was not a lack of invention, but a strategic paralysis; the company prioritized its 80% profit margins on film over the uncertain, lower-margin digital sector.

One of the main issues Kodak faced was the inability to adapt to digital photography. Company history — Kodak's reluctance to prioritize digital above film despite inventing the first digital camera shows a clear case of innovator's dilemma, where a company cannot embrace a new technology for fear of ruining an existing profitable line (Christensen, 1997). Ultimately, this reluctance to adapt opened the door for competitors such as Sony and Canon to seize on the growth of digital photography, gradually but surely eclipsing Kodak in terms of market presence and brand power.

Kodak relied heavily on film sales, resisted internal change, and struggled to meet changing consumer demand. Research on disruptive innovation indicates that companies which are tied to legacy products resist change until their offerings are yanked from them (Christensen & Raynor, 2013). The story of Kodak accords with this narrative: the company made short-term profit-maximizing decisions in favor of film over long-term digital investments and therefore lagged in the growing digital market, where nimble competitors were emerging (Gavetti et al., 2005). The lesson from the case of Kodak is that lack of adaptability to the change in the industry opportunities posed by the new technology is a very big risk in a typical business.

And Kodak along with all other such companies should use disruptive technology with a forward-looking perspective in order to stay in the game. The theory of organizational change management suggests that legacy firms are able to manage disruptive innovation by creating a separate digital division and pouring a lot of money into digital Research and Development (R&D) (Spector, 2010). Had Kodak incorporated an agile innovation strategy bent on surviving in the digital age rather than attempting to make film fit into modernity, it could have flourished. This case study | Kodak Case Study | will explore Kodak's history and market dominance, the strategic decisions that led to its demise, and the insights that can be learned from its experience. This analysis will focus on the Kodak organizational issues, analyze the strategy alternatives Kodak could have pursued, and provide businesses with recommendations when faced with a comparable disruptive challenge (Atik, 2012). And through the lens of Kodak's story, they will be able to learn the one thing that is top priority when the need for market evolution is on our doorstep: adaptability, innovation and proactive leadership.

## Analysis

The Kodak company history provides a perfect case study in achieving digital disruption, and the propellant risks that the business failed to adequately address. This part evaluates these threats, outlines Kodak's action toward all of them, and discusses how successful Kodak's precautions were. This approach to place a strategic blunder such as that faced by Kodak within context is supported by related studies and theories on organizational change, digital disruption and risk management.

## Risk Identification

**Market Risks.** Digital photography technology posed a direct existential threat to Kodak's film-based business model by making film products unnecessary. The theory of the Innovator's Dilemma (Christensen, 1997) explains how established companies' emphasis on sustaining existing business models leads them to overlook potentially disruptive technologies. In hindsight, Kodak underestimated this threat, a phenomenon that is often observed when organizations face market disruptions (Tripsas & Gavetti, 2000).

**Organizational Risks.** The legacy of Kodak is one that will be taught in business schools for years to come; their cultural being was in film which made their transmutation to digital that much harder. Many researchers have examined this “status quo bias” in organizations (Hannan & Freeman, 1984; Tushman & O'Reilly, 1996) as habit and a successful past history of an organization leads to opposition to change. The internal architecture of organizations: E.g. Kodak and digital – Organizations resist change from new technologies not only due to external environmental factors but also because of their own internal organizational structures as was the case with Kodak which preferred film products to digital initiatives.

**Competition Risks.** Other companies like Sony and Canon jumped into digital photography, and every day Kodak was slower to respond, a percent or 2 percent of the market share lost to them. Research on competitive dynamics shows that falling behind in response to new entrants or substitute products can lead to loss of

market position (Porter, 1985). The failure of Kodak to pre-empt these competitors by introducing its own competitive digital products in a timely manner left others to take over the then emerging digital photography sector (Lucas & Goh, 2009).

**Financial Risks.** Much of Kodak's revenue came from the sale of film, thus peering into the world of digital was a precarious position to take. Numerous studies have shown that legacy products can create financial locks-in that limit the ability of incumbents to reassign resources to new technologies (Gilbert, 2005). Kodak's slow attempt of diversification makes its portfolio growth impossible, ended up compounding more financial risks and weakening its ability to adapt to market changes.

### **Risk Assessment**

Kodak knew that digital photographs would be the future, but failed to realize just how fast that future would arrive to them. Kodak invented digital cameras way before they became popular, but its digital response was hampered by the company's commitment to film products (Gavetti et al., 2005). That incorrect estimate fails to accurately evaluate the digital risk and its effect on the ground business of Kodak.

Kodak executives knew there was significant resistance to digital adaptation within the company, but could not pivot away from their main business. External theories of organizational change contend that well-established frameworks in firms can hinder the ability to pivot to new domains (Tushman & O'Reilly, 1996). The structure of Kodak was too rigid to allow it to create an innovative environment in the digital world.

One of the reasons Kodak fell behind was that it underestimated the competition digital-native companies posed, who snapped up the digital market in no time. Tools such as benchmarking and competitive analysis, with which Porter has endowed us, could have allowed Kodak to better do its competitors expected strategic moves and resource allocation toward digital innovation (Porter, 1985).

Kodaks knew it relied on film revenue but could not quickly or effectively diversify. Research in corporate strategy emphasizes income diversification as a hedge against disruptive shocks (Markides, 1997). Reduced film sales could have been mitigated with financial diversification, however Kodak's sporadic attempts to enter different markets and services limited Kodak's competitive viability in other fields.

### **Risk Mitigation**

It was too late, putting money in digital cameras, but without reaching any sizable market and they did not plan the online services they have well together, i.e. did not execute a coherent strategy. Register for more related content A more useful response could have been an end-to-end digital transformation that leaned into aggressive digital product development, marketing, and partnerships. Case study evidence of successful transformation indicates that firms that invest holistically in digital transformation outperform those whose investments are partial and incremental and therefore compete in legacy markets (Christensen, 1997).

The first Kodak tried to resolve organizational inertia through a digital division but was heavily constrained on independence and funding. Kodak might have tackled its resistance to change better if it had created a separate digital subsidiary with independence, budget, and resources to innovate free of Kodak norms and culture. To overcome a cultural freeze – and the inertia that often accompanies the cultural frame of reference – change management models suggest structural changes (Kotter, 1995).

Kodak started releasing digital products, but more often than not, too little too late and with low innovation. To go more proactive, it could have involved negotiations and strategic partnerships as well as benchmarking with regards to corporations that have successfully adopted a digital strategy, hence bringing in the outside expert capabilities and also improving Kodak to position in the digital market as well (Porter, 1985).

Diversifying in order to decrease reliance on film, Kodak was inconsistent, operation-wise. With a better diversification strategy, emphasis on digital imaging and other technologies, Kodak could be enjoying a stable

financial position today. Strategies for diversification utilize theoretical frameworks that emphasize long-term commitment to alternative revenue spans (Markides, 1997).

### **Alternatives and Decision Criteria**

The most radical choice Kodak could have made would have been to abandon all its film-based products. Disruptive innovation (Christensen, 1997) knowledge emphasizes the need for legacy companies to adopt new technology wholeheartedly and as early as possible when faced with disruption. Kodak had the capability to actually lead the digital imaging space, they just did not jump the sharks. Three (3) Studies indicate that resistance of this nature is frequently driven by a fear of cannibalization of an existing source of revenue even when that reluctance may jeopardize long-term sustainability (Tripsas & Gavetti, 2000).

Kodak's hybrid strategy enabled the company to maintain its traditional film business while gradually developing its digital capabilities. This method provided a bridge to loyal motion picture clients, but there was danger that it would lead to market confusion and unnecessary competition autonomy. Researchers continue to analyze hybrid models — they can work if you have a clear transition plan; they often flop if a company structure prohibits digital agility (Gilbert, 2005).

Even Kodak owned very valuable patents on digital imaging technology, the firm could and should have capitalized on its intellectual property by licensing it to other companies. Investigating business model innovation indicates that—compared with asset acquisition—licensing constitutes a lower risk option to exploit the latest technological developments (Teece, 2010) Yet, licensing in and of itself may not be the best safeguard of a firm's long-term competitive position – particularly if it limits the firm's ability to build its own digital footprint or brand.

Kodak could have turned toward markets outside photography, leveraging its brand and knowledge about imaging to expand into consumer electronics, or even printing. The diversification, according to Markides (1997), may stabilize revenue streams but demand proper alignment of core competencies. Kodak's diversification attempts were erratic due to its lack of focus and resources.

Kodak can find some options, but it has to take into consideration revenue potential, and the options also need to align with its core competencies, strategic options are practical, and examples of long-term sustainability and risk management that be seeks some of Kodak's alternatives are those. The selected alternative must compensate for decreasing film revenues, take advantage of core competencies of Kodak, include organizational resources, technological capabilities, and market settings, assist Kodak to adjust itself for futuristic changes in the technology, and incorporate out comes from the risks which are risk of competition, market disruption, and organizational inertia. Good risk management would help Kodak in responding appropriately to the changing market conditions (Lucas & Goh, 2009; Porter, 1985; Tushman & O'Reilly, 1996; Gavetti et al., 2005; & Lucas & Goh, 2009).

Kodak's strategy intended to combine hybrid and diversification strategy with incremental digital transition while still selling film. These included digital cameras, photo-sharing websites and consumer photo printers. Kodak tried to diversify its revenue by setting up a digital division and investing in consumer printing technologies. But the approach was inconsistent meaning that digital was not prioritized which resulted in weak competitive positioning. The reasons attributed to the failure of the company included lack of commitment to digital, delayed execution, organization and cultural resistance and also a poor diversification strategy. And those factors are what ultimately resulted in Kodak not being able to defend its market position and remain a viable company (Gilbert, 2005; Christensen, 1997; Porter, 1985; Tushman & O'Reilly, 1996; Hannan & Freeman, 1984; & Markides, 1997).

### **Recommendations and Implementation Plan**

Kodak, in the very process of its transformation, had to categorically accept and embrace the digital first approach. Commitment to digital transformation is backed by technology management theory Kahneman (1998), who argues that for their survival, even well entrenched companies have to be ready to take reckless

self-destructive actions. As noted by Lucas and Goh (2009), it is dangerous for companies to extend or wait the resolution to the issue of new technology adoption as they may find out that more centered and nimble competitors are already in the market.

Kodak's resistance to digital transformation partly stemmed from its entrenched organizational culture. Scholars like Tushman and O'Reilly (1996) argue that firms facing disruptive shifts benefit from a more agile structure that empowers new divisions to innovate. Cultural change, supported by incentives for digital-focused accomplishments, would encourage internal alignment with Kodak's digital goals (Hannan & Freeman, 1984). Kodak required an all-encompassing digital ecosystem that extended far beyond the provision of just cameras. Theory and practice of case studies of ecosystem evolution show that in order to have a well-established commercial presence, several related services, including but not limited to, serving users with photo and video sharing, editing, and online storage, can be utilized enhancing revenues and customer appreciation (Porter, 1985; Gavetti et al. 2005).

Kodak's portfolio of digital imaging patents represented a missed opportunity for immediate revenue generation. Research on intellectual property monetization, such as Teece (2010), highlights that strategic licensing can fund further innovation while allowing firms to stay competitive without direct market entry.

Being customer-centric is key when competing in any digital market thanks to experiences with use and product functionality that strongly drives brand loyalty among users. The influence of consumer behavior and which design aspects are often brought forward (Norman, 2002) have proven that in the digital environment, the companies who provide the products corresponding to Consumers' lifestyles, e.g. with social sharing and easy access, compete more effectively.

Kodak's adoption of digital technology would mean heavy investments in research, development, marketing and building an ecosystem. Although this would stretch resources, income from royalties earned on patents and higher sales of digital goods would help recover some costs. There are also issues of employee cultural change and image overhaul that require management of change. In order to avoid similar scenarios in the future, it would be prudent for Kodak to put in place a system of continuous innovation, empower the decision-making structure, and invest resources in areas that hold the potential of growth. This would help the organization to keep pace with the development of new technologies and changing markets. The structure of the organization should in addition allow for teams to be quick in the screening and responding of market changes. A competitive vision too is an important aspect for the success of kodak in the coming years.

## CONCLUSION

Although Kodak's innovation tendency at the film industry was the most advanced in the world and all of its subsequent strategies of business repositioning seem to offer sufficient capability for digital transformation, managerial delays, organizational inertia, and inability to embrace total change in fear of abandoning what is primarily the core of the company will create instructive cases for most of the organizations operating within a hyper-competitive technological advancement.

The inability of Kodak to keep up with the pace of the digital evolution brought about significant competition from companies such as Sony and Canon. This gap needs to be filled with new and efficient ways which should be very timely on while making strategic changes within such industries. Kodak's organizational culture was unfortunately too deeply rooted in focusing on films which made it difficult to embrace such new strategies, thus the need for cultural overhaul and organization's flexibility in approach. The company's strategy, which mainly emphasized the production of separate stand-alone devices for digital imaging tribally, was grossly inadequate in the face of competition in the industry. The literature on strategic management and digital ecosystems advocates that there is need to enhance the user experience and already existing loyalty by offering an all-round ecosystem.

Kodak provided the proper strategic suggestions including digitalization, organizational remapping, developmental focus on integrated ecosystem in addition to designing solutions centered around users which

could help transform Kodak's fate. These measures may have positioned Kodak in competitive leadership within the digital imaging sector.

Kodak's journey teaches how it is essential to indulge in technological imagination, flexible organization culture and comprehensive strategy, to survive in a business arena so embedded in technology. It is important for Enterprises to manage their strategies in ways that will allow them to be vigilant and responsive to the technologies that are on the horizon, promote the learning and willingness to change among the staff and concentrate on creating systems rather than products.

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