Kodak and the Importance of Proactive Governance

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In 1997, Kodak was one of the most successful companies in the world. It was worth a staggering $31 billion due to its lucrative camera and film-processing business, and a strong brand made famous by its advertising slogan, the 'Kodak moment'. But Kodak fell rapidly from its seemingly untouchable position due to the digital revolution. Just fifteen years later, on January 19, 2012, it was forced to file for bankruptcy. Its shares ended that day at $0.36, when they'd been worth over $90 in 1997. Not only did shareholders – including ordinary pensioners and savers – lose, but workers did also. At its peak, Kodak employed over 145,000 citizens.

Yet even today, Kodak is rarely seen as a corporate governance failure. Bad corporate governance, many believe, arises when executives split the pie in favour of themselves or investors, at the expense of stakeholders. For example, high CEO pay or a share buyback is often met by outrage, due to claims that this money could have been otherwise invested or used to pay ordinary workers. Those actions are known as "errors of commission" – taking bad actions.

Kodak didn't make any such errors. No-one lined their pockets at the expense of anyone else. Even when it went bankrupt, Kodak's executives didn't suffer the media backlash often reserved for well-paid CEOs. Indeed, while many alleged "fat cats" are notorious, few people know the names of the executives responsible for Kodak's collapse and the loss of 145,000 jobs. Instead, Kodak is often viewed as the innocent victim of changes in technology.

But Kodak *is* a corporate governance disaster. Poor corporate governance isn't just about CEOs taking slices of the pie from other stakeholders, but shrinking the pie through complacency and bad decisions. Shareholders and executives suffered alongside the 145,000 workers who lost their jobs – but that doesn't make those job losses any less painful, or the mismanagement that led to these job losses any more excusable.

Because Kodak wasn't an innocent victim of technology. It could have taken action – indeed, it filed the first ever patent for a digital camera back in 1975. Six years later, Sony produced the world's first 'electronic camera', the Mavica. Kodak – then the clear market leader in film - did some market research and what it found should have sent shockwaves around the company. Their head of Market Intelligence Vince Barabba predicted that, in ten years' time, digital would replace film. But Kodak didn't bother to do anything about it, because ten years was a long time – far beyond executives' horizons. The money was still rolling in from film – sales had just crossed $10 billion in 1981 – and if they embraced digital, that might cannibalise their lucrative film business. As Barabba said, "the Company just never got around to developing the technology, because the money to be made from its traditional business of old-fashioned photographic film was so much bigger." But we know how this film ended – in Kodak's bankruptcy.

What lessons can we learn from this one example for corporate governance in general? Poor corporate governance isn't just about "errors of commission" (taking bad actions) but also "errors of omission" (failing to take good actions). An executive's goal is not just about avoiding media backlashes, but actively creating value for society – taking risks to innovate

new products that transform customers' lives for the better, working practices that enrich employees' lives, and production techniques that preserve the environment for future generations. If a company fails to take such actions, substantial opportunities to grow the pie – for both shareholders and stakeholders alike – are lost.

What are the implications for companies? It's to make innovation a strategic priority. All boards have risk and audit committees to reduce downside risk. But good corporate governance isn't just about downside protection, it's also about upside value creation. So one action could be to create an innovation committee on the board. This steps back from day-to-day firefighting and ensures that companies invest enough financial and human resources into long-term projects. Equally important is to create a culture that encourages ideas from employees all levels, embraces risk-taking and tolerates failure – a sea change from the micromanagement and hierarchy that characterises large corporations.

What about for policymakers? Corporate governance reforms must not only prevent failures through complacency, such as Kodak, but also promote innovation. We must be comfortable that failures through experimentation are a statistical inevitability of a governance regime that embraces risk-taking, given how many companies there are. This involves ensuring that new laws aren't a knee-jerk response to one or two high-profile failures, which may stifle hundreds of other companies that are acting responsibly and seeking to create long-term value for all of society.