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STRATEGIC MANAGEMENT

Designing the Future of your Organisation



Desclée De Brouwer

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Translated by: Macarena Cuenca-Amigo

Imagen de portada: Tumisu from Pixabay

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ISBN: 978-84-330-3299-7

Depósito Legal: BI-00098-2025

*To Antonio Freije,
our point of reference and source of inspiration.*

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Acknowledgments

This book is the culmination of years of study, research, teaching and learning experiences in the field of strategic management, specifically within the context of the University of Deusto and Deusto Business School at its Bilbao campus.

Over the years, we have shared ideas with multiple generations of students, both undergraduate and postgraduate, local and international. Their critical spirit, along with their questions and interactions, has continually challenged us to seek new examples and strive to make conceptual explanations as clear as possible, constantly connecting theory with practice. Evidence of this can be found in the real-world case studies available at the end of the book, as well as in the explanations and examples throughout each theoretical chapter, particularly in the sections titled “To explore further”. These are designed to encourage readers to ask themselves questions, reflect on key concepts, and experiment with analytical tools. Many of the practical applications we refer to in the book have been made possible thanks to the generosity of professionals –often alumni– who have shared real-life business cases with us. To all those who have passed through our classrooms and helped us grow and broaden our horizons, thank you.

However, just as in theatre, where there is more to the production than the performance and audience interaction, the university has its backstage. This is where unnoticed but essential work takes place, without which the show could not go on. The academic backstage happens in offices, in countless hours of coordination, discussion, and debate with colleagues from the field. These decades of university work began in the 1970s when Antonio Freije first taught the subject in our business school. Over the years, new professors have joined, shaping what is presented here. In this regard, we would like to especially thank Marta Álvarez Alday, a colleague and friend with whom we have shared many hours clarifying concepts, preparing case studies, and organising special classes featuring business professionals.

Our close work with Marta was already evident in 2022, thanks to the following work we co-authored, which she led: Álvarez Alday, M.; Cuenca-Amigo, M.; and Freije Obregón, I. (2022). *Strategic Management: 24 Real & Contemporary Case Studies*. Bilbao: Desclée De Brouwer. More recently, professors Sofía García Torres and Ciara O'Higgins have joined the department, and we have shared teaching experiences with them in courses such as “Corporate Strategic Analysis” and “Business and Sustainability,” as well as “Strategic Management and Control”. To all of them, thank you.

In addition to the interactions and learnings from colleagues, students, and professionals during our academic and research activities, we must also acknowledge our own education in the field of strategy. This brings us to the dedication of this book. Antonio Freije, our mentor and inspiration, was our professor and the person who instilled in us a passion for strategic management. As a pioneer of the strategy department at what was then the Universidad Comercial de Deusto, Antonio helped us grasp the foundations of strategic thinking and, through his example, taught us that a business school must always stay connected to the realities of the business world. Thanks to his writings on strategy and corporate policies, we have been able to study his legacy in depth, and there are numerous references to his work throughout these pages. Finally, we must express our gratitude to Antonio for his generosity in agreeing without hesitation to write the foreword for this book. Antonio, thank you for everything.

On the operational side of bringing this book to life, we must thank Professor Fernando Gómez-Bezares for his support, as well as the commitment of the Desclée De Brouwer publishing house, which worked under very tight deadlines. An additional challenge in the production process was the need to make the book available in both Spanish and English. We hope this will allow us to reach a broader audience and share the work we do at Deusto Business School on an international level.

Foreword

First of all, I would like to thank the authors for their kindness in asking me to write the Foreword to their book on Strategy. We are united by many things—our vision of the company and its role in society, the way we interpret and, I would even say, apply that vision. We also share a significant part of the ethical and social values that form the foundation of the training we received, at different times but at the same university, alongside many other colleagues from the same background. In my view, a prologue should serve as a foreword that helps readers approach the work and, to some extent, immerse themselves in it. Typically, a prologue is written from a distinct perspective—often by someone outside the group of authors. However, in this case, as I have mentioned, there are many aspects that connect the authors and the prologue writer, making this integration smoother and more natural.

I hope this brief commentary serves, even if only in a small way, to aid in the understanding of this work and perhaps contribute to some of its conclusions.

The management of companies has been, and is, the main basis of our professional activity, both from a strategic perspective, as well as from other technical and human aspects that are integrated in this management. Over time, this leads to the development of a distinct style of work, which we strive to apply to the activities within the companies where we carry out our professional duties. We also aim to reflect this approach in our writings, where we seek to expand on theories, principles, and applications—whether originating from our own efforts or from research that has always been a guiding presence.

In keeping with this double objective, to contribute to the intention of this work and to do so in the usual style of our academic and professional actions, I will divide the content of this prologue into four points that will help to reinforce. These points will further clarify the reader's understanding and support their assimilation of techniques, procedures, and conclusions.

1. For those who will find this book especially useful.

This book will be particularly useful for students and professionals exploring the field of strategy for companies, institutions, and even associations.

However, it is worth noting that, despite the authors' efforts to use accessible language and carefully manage terminology to make the content approachable for a wide audience, a certain level of business knowledge is recommended. This knowledge may come from formal education or from practical experience gained through professional activities.

2. Methodology used in the analysis.

As expected, given the authors' experience, preparation, and professional environment, this book provides a rigorous framework for the initial selection and subsequent definition of strategy. The volume of both internal and external information necessitates a structured approach to organising all components and examining them in depth. It also emphasises the idea that "each step represents a part of a larger whole, which is the strategy".

All of this is presented in the book through clear conceptual explanations that provide a solid understanding of each step. In fact, on certain occasions, these insights allow for analyses and reflections that are applicable beyond the definition of strategy. Most steps include important practical applications to support their effective management. These applications are highly valuable for both professionals and scholars. Moreover, in addition to their relevance to specific sections, conclusions are also drawn about their contribution to the overall strategy.

3. Conceptual foundations.

All developments are based on Deusto's extensive and wide-ranging experience in research, analysing and deepening, where appropriate, those published and presented in other contexts.

As expected, this is further enriched by the experiences of professors, consultants, and professionals who, in various ways, maintain a connection with the university.

4. Aspects that strategy-makers should always bear in mind.

Finally, I would like to highlight four key aspects to consider when defining the strategy:

- Consider the enterprise as a **unit**.

The company is a social being that acts in relation to the environment (different types of markets), from which it takes and receives contributions,

and in turn offers actions, products and services that the markets may or may not acquire voluntarily.

This idea must always be upheld by those involved in the strategy, both in its conception and in its development or modification.

- **Understanding strategy as balance.**

Numerous groups influence the conception and development of business strategies. These groups make up the stakeholders, each of whom contributes to and receives their own considerations from the company. The strategy must seek the mutual interest of the company and the stakeholder. The strategy will also aim to balance the interests of the different groups, which may be more or less involved, and have the ability to influence the company to advance their own objectives, sometimes at the expense of other groups. This balance must be carefully considered between what each group contributes and what each one receives.

Such a balance presupposes the continuity and life of the company.

It should not be forgotten that stakeholders include those most directly involved with the company, such as employees, customers, suppliers, and shareholders or owners, but also extend to those further afield, such as society at large, who should also be considered.

It is unrealistic to think that companies should only seek to maximise their own profits, as their actions must also gain the consent and satisfaction of other social stakeholders.

- **Systematic approach to advance the formulation and development of the strategy.**

It goes without saying that choosing a strategy with long-term prospects must consider a variety of interests and a complexity of challenges. It is impossible to select and sustain such a strategy without careful systematisation. While a spontaneous idea may sometimes succeed, there are examples of this, it is never a valid approach for the vast number of companies that constitute and strengthen employment and the global economy.

- **Knowing how to work with a combination of contrasting information and areas of uncertainty.**

It should be noted, quite simply, that defining, implementing, and developing a strategy that seeks to determine alternatives and pathways for the future is only possible when the key actors can coexist with both known information and data, as well as the areas of uncertainty, where things are more diffuse.

Role and process of strategic management

Kodak's strategic decisions¹

The directors of Kodak treated the digital camera much like Superman treated kryptonite: they saw it as a dangerous threat, better hidden away in hopes no one would ever discover it. However, as in any good story, the “bad guys” always find a way. In May 2011, just six months before Kodak filed for voluntary bankruptcy in New York, Antonio Manuel Pérez, the company's president and CEO since 2003, admitted that his predecessors “did not want to accept a technological change” that drastically reshaped the photography industry –ultimately driving Kodak, once a market leader, out of the competition.

In August 2013, following 19 months in receivership, a judge approved a restructuring plan presented by Pérez and his team to help Kodak emerge from bankruptcy. By September 2013, Kodak had fully transitioned away from its traditional photography business. The company pivoted to a new focus on printing services for posters, leaflets and packaging companies, retaining just 8,600 of the 17,000 employees it had in January 2012 and securing the support of more than 80% of its previous creditors. This marketed not only a shift in strategy but also a change in leadership.

In 2011, Antonio Manuel Pérez still held onto the hope of a Kodak comeback. Perhaps this optimism explains his benevolent perspective on Kodak's earlier management, particularly their rejection of a pioneering digital camera model in 1975 that is now on display in the Smithsonian Museum in Washington. Pérez remarked, “I understand it. They were moving from a business model, film, which offered a 65% profit margin, to digital, which would only yield 20-25%. That's something to think about”.

Kodak's film business was a cornerstone of its success for an astounding 87 years. This journey began in 1888 when the company purchased the patent for roll film for \$5,000. George Eastman, the Kodak's founder, envisioned the

transformative potential of this innovation. Unlike the cumbersome and fragile glass plates used at the time which had to be coated with photosensitive chemicals and developed immediately after capturing an image – roll film was far more practical. It eliminated the need for a darkroom on-site and the person who captured the image did not necessarily have to be the one who developed it afterwards.

Kodak's revolutionary approach to photography made capturing memories accessible to everyone. With Eastman's innovation, people could take photos of their loved ones across various sessions, then drop off the film at a lab and return a few days later to collect the developed photos. However, early films lacked protective castings and were sensitive to light, requiring careful handling. So ideally, with Eastman's approach, the film would be removed in near darkness, often at a professional lab where it could also be replaced with a fresh roll, leaving the camera ready for taking more photos.

Eastman then had a groundbreaking revelation: produce simple, compact cameras (made possible by roll film) and sell them at irresistibly low prices, sometimes even below production costs. This strategy ensured that everyone could own a camera, but all those cameras would rely on Kodak's proprietary film. Kodak monopolised the film market, dominating both photography and cinema supplies. This business model thrived for 116 years, and even in 2004 as Kodak initiated restructuring to stave off bankruptcy, 95% of its 70,000 global employees were still dedicated to film production.

However, by 1975, Kodak's unrivalled position in the film market was already being challenged. Steve Sasson, a Kodak engineer, unveiled the first digital camera to management. For a company selling 90% of the world's, this innovation (a camera without film) was a direct threat. Like kryptonite to Superman, digital technology posed an existential danger to Kodak's core business. The leadership's response was to conceal Sasson's invention, hoping to suppress its disruptive potential.

But, as Antonio Manuel Pérez used to say, "the bad guys always find these things". By the 1980s, competitors like Fuji, Nikon, Canon and Sony had charted their own paths to digital photography, discovering the opportunities Kodak had tried to keep hidden.

Excerpt adapted from Bernal, I. (25 August 2013).
Esconde la kriptonita. *El Correo*.