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## **Ecosystem Leadership**

**Catalyzing your leadership practice**



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By Dr. Matthias Reuter, Dr. Peter Koerte and Aymeric Sarrazin

# Unleashing the Potential of Ecosystems

**Creating sustainable solutions in real and digital worlds at Siemens**

## **Introduction**

In a rapidly changing business landscape, the ability to innovate and leverage technology is crucial for companies to stay competitive. At Siemens, we recognize the complexity of our world today, with challenges such as digitalization, demographic change, climate change, and urbanization among others. To address these challenges, we need to find sustainable solutions that rely on the combination of both the real and digital worlds.

***Due to the complexity of modern business challenges, no individual or company can find all the answers on their own.***

Consider the energy industry, where the share of decentralized power generation is expected to reach 67% by 2030, putting significant new stress on the grid. With the help of digital technologies, we will be able to manage this challenge effectively. Similarly, in buildings, energy accounts for 40% of the overall operations cost, and we aim to leverage digital technologies to contain these costs. Moreover, with the global population in cities projected to increase from three to five billion by 2030, transportation will become an ever greater challenge. We cannot simply build more physical infrastructure; instead, we must explore digital technologies to enable breakthroughs.

The industrial internet of things (IoT), where activity is monitored as well as data collected and analyzed, is the key to unlocking the next era of growth and innovation. By combining the real and digital worlds, the IoT has the potential to create up to \$11 trillion in economic impact

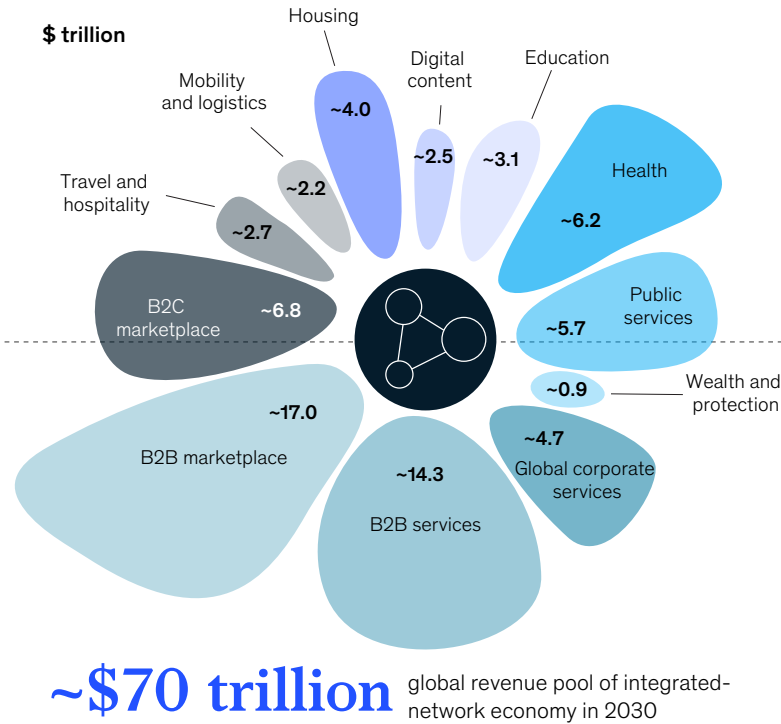
per year by 2025<sup>1</sup>. Business-to-business (B2B) applications account for 70% of this potential additional value creation, and the manufacturing industry alone could automate 60% of its tasks, leading to improved productivity, quality, and safety. Therefore, we at Siemens believe that the future lies in the integration of the real and digital worlds. **By leveraging the digital technologies, we can create sustainable solutions to address the challenges of our complex world.**

Due to the complexity of modern business challenges, no individual or company can find all the answers on their own. That is why many companies of various sizes, have begun to develop cross-sector business offerings in response to clear customer demand. This shift towards integrated ecosystems is already being embraced by consumers, with 71% indicating their readiness for it, as revealed by a survey conducted by McKinsey. It is predicted that by 2030, the integrated network economy could comprise up to 25% of the global economy, which is a significant increase from its current share of only 1 to 2%. The economic value is expected to generate global revenues of \$70 trillion, as shown in exhibit 1. This global revenue pool results from a combination of additional value creation as well as a shift in value from traditional industries to those enabled by IoT.

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1 Source: McKinsey, Unlocking the potential of the Internet of Things

Twelve distinct ecosystems have started to form within the integrated network economy.



Source: McKinsey & Company 'A design-led approach to embracing an ecosystem strategy' July 2021

## Siemens Ecosystem Approach

We recognize that partnerships are critical in addressing the challenge of scaling industrial solutions. We understand that no company has all the capacities and capabilities to do it all on their own, so we see working with other companies in a common ecosystem as an essential driver for success. Therefore, the company collaborates with a large number of partners to access the necessary expertise, technologies, and resources complementing what we have in our portfolio to address customers' needs.

That is why we have launched the Siemens Xcelerator<sup>2</sup> which is an open digital business platform to accelerate digital transformation and value creation. This value creation arises from facilitating interactions and fostering innovation between multiple parties (customers, partners, developers etc.). An underlying and evolving marketplace will support interactions among ecosystem participants. Enabling digital transformation more easily, faster and at scale, comprising three elements:

- a curated, modular portfolio of software and IoT-enabled hardware built on standard application programming interfaces and a range of services from Siemens and certified partners.
- a growing ecosystem of more than 6,000 partners – from solution vendors to service partners to resellers.

2 See <https://www.siemens.com/global/en/products/xcelerator.html>

- a marketplace, that will grow over time, as a central point to explore, educate, exchange, and transact alongside a community of customers, partners, and developers.

The foundation for this is a clear technical and commercial governance to facilitate co-creation and collaboration between partners, customers, developers, and Siemens. This ensures the highest standards and value for all parties by formalizing the key design principles. The goal is to be easy, flexible and open.

We believe that Siemens' ecosystem collaboration allows us to leverage the strengths of our partners to deliver comprehensive solutions to our customers. At the same time, we show and acknowledge the value created for the other companies in the ecosystem. By collaborating with partners, we can tap into their expertise and domain knowledge, which complements our own. This allows us to address the needs of our customers in a more effective and efficient way – this is how the flywheel works<sup>3</sup>. That said, gaining insights from various markets, identifying commonalities and similar requirements are critical in transforming complexity into modules that are interoperable and function well together when plugged in.

<sup>3</sup> Business 'flywheels' are self-reinforcing mechanisms that amplify the impact of small wins resulting in increased momentum and the generation of additional value. Ecosystems are particularly suited to this dynamic with their diverse range of players enabling a multitude of accumulating gains.



To achieve this goal, the company aims to thoroughly understand the entire market and domain, rather than just one customer. This approach requires collaborating with external parties to achieve competitive advantage. So called “Run” partners like Microsoft Azure and AWS, for example, are critical partners for Siemens in integrating solutions wherever the customer needs. The more partners that join the platform, the more powerful it becomes.

### **Leadership and Organizational Readiness**

As a company that is constantly looking for ways to innovate and provide value to our customers, we have embraced the shift towards platform-based ecosystems. We recognize that collaborating with external partners and creating network effects is crucial for scaling even faster and offering innovative solutions jointly in collaboration with other contributors. To guide us in this new approach, we have developed five core principles as shown below:



### Shift

focus to the outside  
of your firm



### Create

more value than  
you take



### Design

for network effects



### Rethink

control



### Inspire

your ecosystem

**Focus outside the firm:** Rather than just looking inward, we need to shift our focus outside the company to create meaningful collaborations that bring value to all parties involved. By working with external partners, such as other companies, startups, and academic institutions, we can leverage a diverse range of expertise and experience to accelerate growth and success.

**Create more value than you take:** To create a successful ecosystem, it is important to provide more value than you take. This includes finding ways to create win-win situations for all parties involved, so that everyone benefits from the collaboration. It also means being strategic in our partnerships to ensure that we are not just taking from others but contributing to the greater whole. Partnerships have the immense power to spur innovation, hence adding more impactful value to digital and industrial transformation.

**Design for network effects:** Network effects are a key source of value in open ecosystems. The more people use a platform or offering, the more valuable it becomes for everyone involved. In any market with network effects, the focus of attention must shift from inside to outside the firm. The reason: You can't scale network effects inside as easily as outside.

**Rethink control:** When collaborating with external partners, it is important to find the right balance between openness and control. We need to establish rules of governance that protect our intellectual property rights and confidential information, while still finding ways to collaborate effectively. This may involve relinquishing some control over certain aspects of the innovation process but finding alternative methods of commitment and collaboration through these governance rules.

***To create a successful ecosystem, we need to inspire our network towards a clear mission and keep control of relationships.***

**Inspire your network:** To create a successful ecosystem, we need to inspire our network towards a clear mission and keep control of relationships. This means orchestrating and inspiring our partners towards a common goal, while also keeping a strong sense of leadership and direction.

An example of how we implemented these principles is through our low-code application platform, Mendix. By offering the easiest and fastest way to build, integrate, and extend applications, we have created a diverse and powerful application ecosystem that benefits everyone involved. The more people use the platform, the more applications are created, leading to greater network effects and value for all.

The nucleus of our digital marketplace strategy is Supplyframe, a leading and fast-growing marketplace for the global electronics value chain. Combining Supplyframe's knowhow with Siemens' leading software enables customers to innovate and develop products faster. Hence, we provide seamless and quick access to both Siemens' offerings and Supplyframe's marketplace intelligence. This will help customers to reduce costs, increase agility and make highly informed decisions.

Shifting towards an ecosystem-centric approach requires several critical aspects to be addressed to create a more boundaryless organization that can effectively partner and thrive within an ecosystem.

The first and foremost aspect is to understand the importance of partnering and managing an ecosystem strategically. It is essential to have a clear understanding of respective interests, joint interests, and the overall vision. 'Reframing' perspectives and future-back thinking from various angles of stakeholders is a crucial leadership capability that encourages individuals and organizations to look beyond the immediate challenges and opportunities and proactively shape the future.

Siemens Xcelerator demonstrates how we at Siemens want to work together and get even closer as an integrated technology company. This involves creating network effects from product design right through the value chain, where interactions between partners joining the ecosystem attract complementary sources of value. Effective communication and storytelling of the reasoning behind these changes is also crucial to ensure everyone understands the shift and its importance.

An example of a successful ecosystem is the cooperation of Siemens and our customer FREYR Battery, leveraging Siemens' automation and digitalization expertise coupled with the unique capabilities of our partners AWS and NVIDIA. FREYR will use the Siemens Xcel-



erator portfolio, including Siemens Industrial Operations X software and hardware to design and operate the planned gigafactories in Norway and the U.S. Siemens, NVIDIA, and AWS do build the immersive industrial metaverse experience of the FREYR gigafactory. Siemens and FREYR will join forces along the entire battery design and manufacturing process, from production design, planning and simulation, to the automation of the entire actual production process.

Collaborations like this and other planned projects are made visible on Siemens Xcelerator, so further partners can get involved on a matchmaking marketplace. To fully unfold this potential, it has been and still is crucial to automate and scale the co-creation processes from our businesses.

## **Leadership Development Approach for Embracing Platform-Based Ecosystems**

### *Starting with Why*

In order to create a common language and understanding amongst our top leaders we began the journey with a comprehensive top leadership program offered to our executives and talents worldwide. Our Top Management Leadership Programs (TLP) focus on critical organizational transitions, which need to be supported through new management and leadership capabilities and mind-



set. Acknowledging the strategic importance of mastering the shift towards successful ecosystem management “Leading in Business Ecosystems” was rolled out to top leaders and talents addressing the key paradigm shifts leading towards core leadership principles when bringing in platform-based ecosystems.

“We have to train people on platform ecosystems. We all have to relearn business models and revamp our culture. This is how an inverted company operates, and we have to learn that lesson. If we really want to play in the platform game, we have to understand the mechanisms behind it,” explains Roland Busch, CEO of the Siemens AG.

The program participants took away a sense of opportunity and a joint understanding and common language on business ecosystems as well as required business skills and methodologies and how to translate new approaches into practice on individual and organizational levels.

The program participants received:

- impactful insights into business ecosystems
- content that is not too academic, but more practical and applicable
- relevant and concise internal and external examples
- a focus on the most relevant topics rather than a complete picture
- outside-in views and concepts for structured discussion

The participants applied their learnings in an interactive case study and intense strategic discussions about the application of ecosystem management to their business.

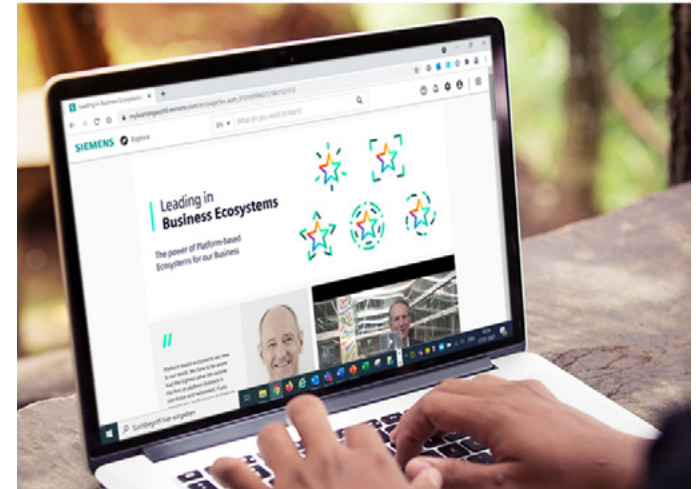
The program comprises four modules:

- Module 1: Introduction and strategic foundations (Definitions, network effects, monetization and launch strategies)
- Module 2: Key strategic decisions (Design, governance, buy, build or participate)
- Module 3: Technological basis (Software architectures and enabling technologies)

- Module 4: Organizational readiness (Metrics, new rules of strategy)

*The intention of the program has also been to empower participants as living examples with their personal commitment to learn and grow resulting in a strong message towards the relevance of the topic and the connected transformation needs.*

A range of learning formats has been derived from this content nucleus for further implementation. A virtual self-learning program is available globally to everyone at Siemens.



*(Highly scalable self-learning format on the Siemens learning experience platform)*

## A New Leadership Narrative

To successfully embrace platform-based ecosystems, we recognize the need for a shift in mindset and leadership. Rethinking collaboration, empowerment of people and embracing a growth mindset are key for successful collaboration. Consequently, we have abandoned static frameworks acknowledging the fact there are no perfect leaders who are able to lead effectively in each and every context. That is why we adopted a dynamic view on leadership through continuous transformational conversations, contextualization, built on the common core of our four strategic priorities.

By developing a joint understanding of our four Strategic Priorities, we create a sense of belonging that guides our leadership discussions at Siemens. Rather than seeking a one-size-fits-all leader, we consider the specific context of the business requirements and strategically required skills when selecting team members. It is about the current team composition and the ability to have humble and honest conversations, often referred to as transformational conversations, where team members discuss what is required in that specific context, what are their strengths and weaknesses and identify any gaps that need to be filled. Hence, we believe that developing self-reflection among leaders is necessary to identify any limitations or biases that could hinder collabo-

***We adopted a dynamic view on leadership through continuous transformational conversations, contextualization, built on the common core of our four strategic priorities.***

ration in certain contexts. Leaders can better understand themselves, develop strategies to overcome obstacles, and lead others more effectively, benefiting the organization as a whole.

By embracing this approach, leaders can encourage and empower others to contribute their ideas and expertise to the organization, regardless of their location or background. Overall, there is no perfect leadership profile for every situation. Rather, we take a holistic approach that considers the current team composition, business situation, and required capabilities to ensure that we have the right people in place to drive success in our ecosystem collaborations. This approach is naturally integrated into all our People and Organization practices and programs to ensure we have the right people with the right competencies to succeed in the respective business environments we are in.

## Activation of New Leadership

To activate all leaders to accelerate our transformation efforts, we have developed the L.E.A.P. program (Lead. Empower. Accelerate. Practice), an online learning platform that focuses on developing the most critical capabilities required to succeed in today's rapidly changing digital ecosystem landscape. The program covers eight topics that help our leaders embrace the transformational moments of our time. The topics covered in the L.E.A.P. program include areas such as customer centricity, business ecosystems, digital literacy, sustainability, collaboration, resilience, innovation, and team performance. The program was developed by the Siemens Leadership Excellence department in collaboration with many internal and external experts and thought leaders worldwide. It enables our leaders to work smart, empower our people, and create space for them to grow.

The topics are directly derived from Siemens' strategic priorities. Thus L.E.A.P. emphasizes the importance of the strategic priorities while making them tangible and fostering common understanding for leaders and their teams. Impulses and practices allow contextualization and direct application of the priorities to the respective business and people environments. Short content impulses are learning videos or podcasts that provide inspiration, while practices provide participants with moves they can take with their teams, customers, and

***There are challenges of transitioning to an ecosystem approach. Measuring success and assigning responsibilities are ongoing challenges that require continuous learning and adaptation.***

partners, allowing leaders to concretely put into action what they have learned and build new habits over time. Annual content updates and assignments to all leaders deepen the strong link to the strategic priorities in a sustainable manner.

Beyond that, we are investing in personalized learning experiences on our My Learning World platform, which provides access to a wide range of business, technical, and product-related courses. In fiscal 2022, our employees spent an average of 26 hours expanding their horizons through these various learning opportunities. With these investments and initiatives, we are better positioned to drive growth, innovation, and create value for all stakeholders in our ecosystem.

## **Conclusion**

As a large and established organization, we understand that there are challenges of transitioning to an ecosystem approach. We recognize that measuring success and assigning responsibilities are ongoing challenges that require continuous learning and adaptation. We are committed to overcome these obstacles and create continuous progress towards a more boundaryless organization that can effectively partner and thrive within the ecosystem. By prioritizing ecosystem development and fostering a culture of openness, innovation and collaboration, we are confident in our ability to stay ahead of the curve and provide even greater value to our customers. We are excited about the opportunities that lie before us and look forward to leading the way in the ecosystem approach.

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