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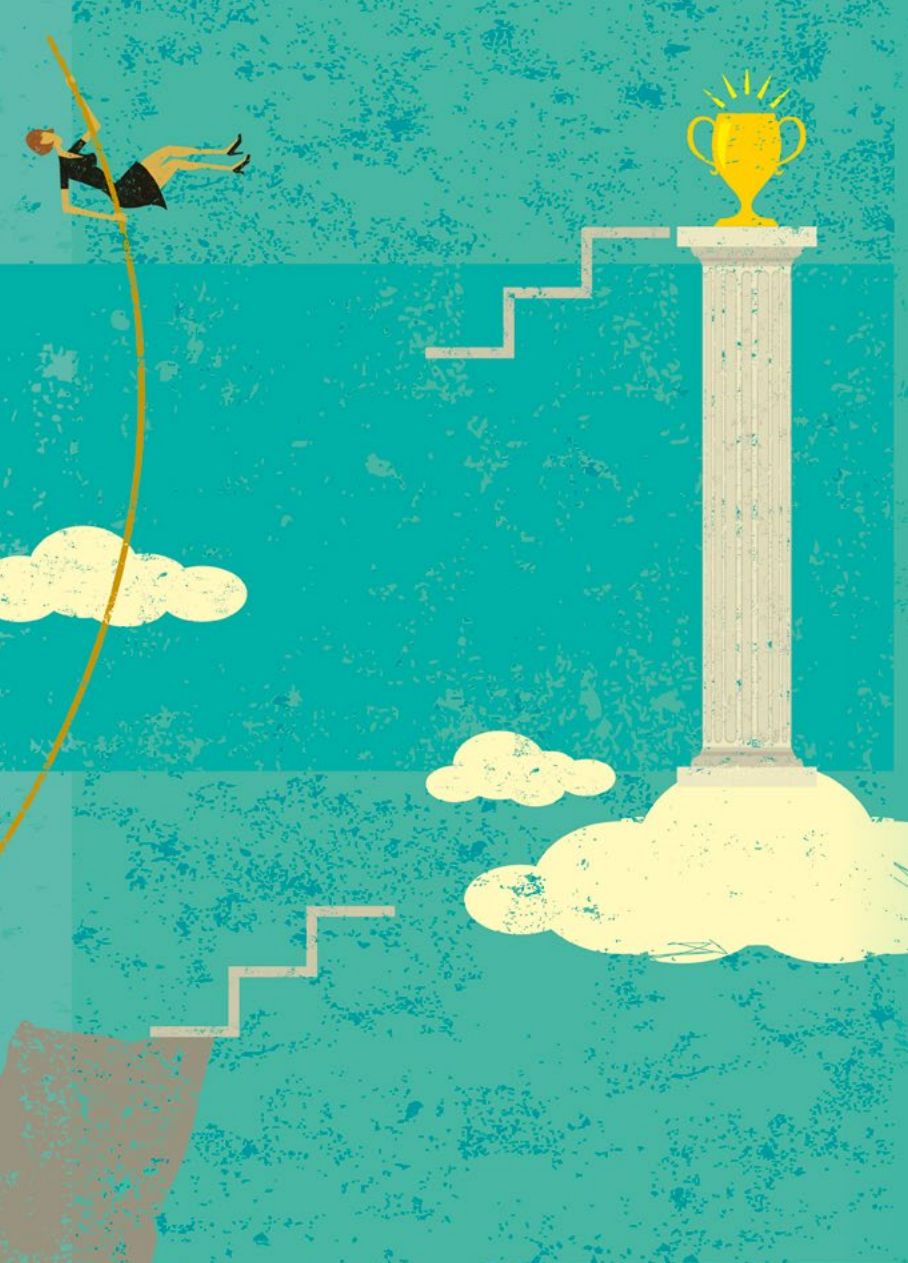
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Michael G. Jacobides, Ulrich Pidun and Martin Reeves

Winning the ecosystem game

The leadership gap

One of the defining business changes of the dawn of the 21st century has been the meteoric rise in importance of business ecosystems. Enabled by digitization and the growth of modular technologies that have redefined the nature of possibility, such ecosystems have transformed sectors, redrawn the boundaries of markets, and challenged the existing industrial order. Ecosystems have fueled the ascent of many Big Tech firms, each of which draws on their own and others' platforms to build collaborative

Ecosystems are often misunderstood. The way they add value is elusive and confusing to many, often wasting valuable resources in unrealistic attempts to become orchestrators rather than participate as partners.

ecosystems, transforming business strategy, and also potentially policy as well. With AI-enabled ecosystems being the latest manifestation of ecosystem power, the topic rightly remains hot.

As ever, though, excessive enthusiasm and hype cut two ways. On the one hand, they raise awareness, and help us focus on new possibilities. On the other hand, hype means hyperbole, and some of the would-be innovators are quick to adopt the label, without necessarily having a solid plan, much less capabilities and implementation skills that can back up the claims they make. Business ecosystems are no exception. Even firms that proudly speak of their ecosystem achievements have private worries about getting their strategy right, and even more so, getting organizational design and leadership right as well.

This should not be a surprise. Ecosystems are often misunderstood. They may have become a focus of academic work and practitioner excitement, but the way they add value is elusive and confusing to many, especially as firms are mired in delusions of grandeur, often

wasting valuable resources in unrealistic attempts to become orchestrators rather than participate as partners.

One of the less discussed reasons for ecosystem failure is that the attitudes of leaders seem to be stuck in the previous era. Ironically, the very forces that have brought about ecosystems – the opportunities of collaborating and leveraging complementors, the possibility to experiment and quickly scale new solutions, and the ability to do this outside a firms' boundaries – are the forces that undermine ecosystem development *within* firms, when they are stuck to an outdated model of managing and leading, which is maladapted to winning the ecosystem game.

What matters, then, is the attitude and leadership skills that underpin success in the ecosystem game. This is why most of the (spectacular) success stories tend to either be new firms (mostly digital natives), and firms that are open to experimenting and have been born with the systems, structures, principles and values congenial to ecosystems. Both types of firms have developed the leadership orientation that is required to make the successful in this new game.

Solving a different problem

Ecosystems, by their nature, have emerged to solve the problems of organizations working in silos, to offer creative new solutions that spread outside the organization. They require us to rethink how we add value to the customers, and require we find ways to collaborate and

From intuition to evidence

Our article is informed by our research over the last few years. We have independently engaged in research, joining forces to consider what ecosystems are and how they operate, including a compendium of ecosystem research. This, on the BCG/BHI side, draws on more than four years of dedicated research on business ecosystems and from our experience as strategy consultants to more than 50 companies building ecosystems. We studied over 100 failed ecosystems and compared them to their successful peers. Results were substantiated through 20 targeted interviews with a diverse set of executives from startups, big tech, and global corporations. On the Evolution Ltd/ London Business School side, in addition to academic research and work on regulating ecosystems we engaged in research with a dozen organizations and in-depth work with four of them, speaking with over 150 executives in considering success and failures in ecosystems, and explored in detail how to approach ecosystems.

draw on the initiative of partners, be they complementors (those working in our ecosystem) or orchestrators (those whose ecosystem we work with). Whatever our role is, successful strategy in ecosystems requires us to think and act differently. Success in the ecosystem game is not akin to implementing a pre-set plan, and showcasing robust progress along a well delineated, predictable path. It consists of getting the right approach to either participate in or build a set of alliances and links that will excite customers and partners alike. This means they are distinct from other, traditional forms of organization:

- Ecosystems are most effective in unpredictable but highly malleable business environments that require “shaping” strategies, which disrupt and recast an industry.
- Ecosystems cannot be entirely planned and designed, have emergent properties and thus require adaptive strategies, flexibility and willingness to pivot.
- This is further complicated by the limited hierarchical control in a business ecosystem and the need to inspire and persuade partners to voluntarily participate, which poses specific governance challenges.
- Once launched, ecosystems can scale very fast and experience exponential growth, mainly driven by network effects and increasing returns on data. The resulting winner-takes-all dynamics and potential market dominance can lead rapidly to increased public and regulatory scrutiny.
- Building an ecosystem requires high and sustained

upfront investments with comparably long payback times. And success is not guaranteed: our research showed that 85% of ecosystems are not sustainable in the long run, and they tend to fail rather late after having spent substantial amounts of investment, for a predictable set of reasons.

Ecosystems, then, require a different approach, as they solve a different problem, using distinct approaches. While the exact prescriptions may differ depending on whether it is advisable for a firm to build its own ecosystem [NB: more infrequently than one might expect] or participate in existing ecosystems through a portfolio-of-efforts way [more often than not], there are some common issues for leadership- and leadership development.

Leadership is particularly important in an ecosystem world because success requires changes to a firm's traditional operating model and management mindset, creating a tough change management challenge for legacy firms. At the same time, the particular characteristics of business ecosystems pose many new leadership challenges that executives may not be well prepared for, based on their traditional management education. Successful ecosystem leaders need distinct leadership traits in terms of their thinking model, strategic style, mindset and behaviours, the four steps that need to all change and be aligned for a firm to win the ecosystem game.



Ecosystems require we find ways to collaborate and draw on the initiative of partners, be they complementors (those working in our ecosystem) or orchestrators (those whose ecosystem we work with). Successful strategy in ecosystems requires us to think and act differently.

Step one: Get your *thinking model* right

Ecosystems require a fresh mental model, where the focus shifts from the product to the needs of the customer, and where the purview shifts from what happens within the boundaries of the firm to consider context

and partners / those that are complementors. Granted, this will not come free - ecosystems need to solve big enough problems to justify their sustained investment. By their very nature, to succeed and disrupt industries, they require a systemic approach, as well as imaginative counterfactual thinking as opposed to incremental improvements to long-standing business models.

System thinking

- Ecosystem success depends on the performance of the entire system, not of its individual contributors, individually considered.
- Ecosystem design thus requires a true systems perspective. It is not sufficient to design a single firm value creation and delivery model, success also depends on, for instance, explicitly addressing the co-innovation challenge, adoption risk, and value distribution among ecosystem members as well as understanding and influencing regulation. As CEO Stephen Elop rightly observed when commenting on Nokia's demise in mobile phones: "Our competitors aren't taking our market share with devices; they are taking our market share with an entire ecosystem!"

Counterfactual thinking (imagination)

- To identify opportunities for ecosystem business models, leaders must focus less on optimizing

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current operations, exploiting existing capabilities, and expanding present positions and more on uncovering unmet customer needs and imagining new solutions, beyond the scope of their current activities.

- One of the strengths of a business ecosystem is that it can address challenges and enable value propositions that no individual company could achieve alone. Finding such opportunities requires counterfactual thinking and imagination, “the ability to create a mental model of something that doesn’t exist yet.”

Step two: Recalibrate your *strategic style*

Ecosystems also represent a different style of strategic choice, requiring new approaches to strategy and therefore also to leadership. Two of the defining characteristics of ecosystems strategy are that they reshape strategic environments and also need to be adaptive in responding to unpredictable and rapid shifts.

Shaping strategy

- To shape the future of an industry, build an ecosystem and motivate partners to join requires visionary leadership and commitment, combined with long range communication skills.
- Studies in cognitive science show that the most important leadership traits in shaping environments include: reciprocity (willingness to give as well as to

take), deliberateness (acts consciously and intentionally), and at ease with ambiguity (able to act and decide on partial information).

- Such unpredictable and malleable environments require mutual trust and reciprocity among stakeholders. Though the foundation for productive ecosystems must be laid carefully and deliberately, ecosystems evolve organically, requiring leaders to be comfortable with the ambiguity that comes from having only partial control and constant evolution.

Adaptive strategy

- Ecosystem leadership thus needs to balance shaping strategy with adaptive strategy. More important, though, most organizations should aim to develop a portfolio of ecosystem plays where they are partners and not orchestrators, and this means they need to be adaptive as the context they are embedded in evolves.
- Studies in cognitive neuroscience indicate that the most important leadership traits in adaptive environments include: multitasking (capable of handling several tasks simultaneously), dynamic evaluation (able to assess situations quickly), and openness to trial and error (willing to try different actions despite understanding that failure may occur). This becomes all the more important in the context of ecosystems whereby a firm’s role requires fluidity: Should a firm



be a partner or orchestrator? Act in one or multiple ecosystems? How can it manage opposing requests by multiple stakeholders, who are outside a firms' boundaries and act independently?

- In such unpredictable and difficult to control environments, leaders must be able to stay flexible. As new opportunities emerge and new information about them is revealed, effective leaders quickly select and scale the successful ones in a process of trial and error. Consider Airbnb's shift of emphasis from urban to rural locations and offering online events, retailers offering kerbside pickup and home delivery, e.g. at the same time, flexibility does not mean that leaders cease measuring and evaluating outcomes.

Successful ecosystem leaders tend to be more curious than determined, more humble than assertive, better at listening than presenting, and they exhibit strong empathy and are willing to admit mistakes and make compromises.

Focus on value creation (not only value capture)

- The best way to create value as an ecosystem player is not to focus so much on value capture and on growing one's own share of the pie at the expense of others, but to grow the pie together, so that everybody benefits. The failure of the metaverse to live up to its promise so far is partly the result of leading firms such as Meta spending too much time divvying up the pie and setting up expectations of outlandish share of revenue, while at the same time not considering the real use cases for the customers, who, given the lacklustre performance of immersive technologies, were broadly unconvinced.
- This requires a long-term perspective and may involve co-investing in the ecosystem beyond the boundaries of one's own firm and supporting or even subsidizing partners that are bottlenecks to improving the overall customer value proposition. Alibaba, for instance, invested heavily to support the many small sellers on its B2B marketplace with tools and data to run their online stores, partner with manu-

facturers, coordinate with logistics partners, and arrange online payments. Similarly, Airbnb focused early on providing professional support for hosts on its platform, such as photography and cleaning services, linen delivery, and tools to simplify property listing and guest check-in.

Step three: Adjust your mindset

Ecosystems strategies require a different orientation to traditional alternatives. In particular, they require a more external orientation, a more collaborative mindset, a greater tolerance of ambiguity, and also patient investment to secure long term rewards.

- **Outward (not inward) focus:** As the locus of value creation and innovation moves from the company to the ecosystem, leaders must look beyond the boundaries of their own firm to explore business opportunities and secure the required resources and capabilities. Too often ecosystem thinking is still dominated by what a firm can offer- especially if it is dynamic and diversified. This, though, misses the point. Leaders must be more receptive to ideas and impulses from the outside world and beyond their own industry.
- **Collaborative (vs. purely competitive) mindset:** Traditionally, most firms are successful because they are better than their competitors and beat them in the market. However, to be successful in an ecosystem world, leaders need to move from a purely compet-

itive to a more collaborative mindset. To create an effective ecosystem, not an “egosystem”, they need to be reciprocal, compromise and fight the temptation to misuse their position of power as an orchestrator, or even the temptation to default for orchestrating an ecosystem as opposed to partnering with someone else’s.

- **At ease with ambiguity:** Ecosystem leaders must embrace the uncertainty related to the evolutionary development of business ecosystems. They must be ready to confront dilemmas, such as between shaping and adaptive strategies, value creation and value capture, openness and control of ecosystem governance.
- **Patience and stamina:** Given the need for high and sustained upfront investments for building an ecosystem, and their typically long payback time, orchestrators cannot expect instant gratification and need their leaders to signal strong commitment, patience and stamina.

Step four: Change your behaviours

All of the above require new leadership behaviours, including leading from behind, trust based leadership and humbleness.

- **Leading from behind:** Business ecosystems are based on voluntary collaboration between largely independent partners. Ecosystem leaders must accept that they will not be in full control. They

must lead in less formal ways through active influencing, networking and moderating. This also involves taking responsibility beyond the boundaries of the firm, for example, for partner behaviour that cannot be fully controlled.

- **Trust-based leadership:** Effective leadership in a business ecosystem cannot be based on power because the orchestrator cannot force partners to join and contribute to the ecosystem. Instead, ecosystem leaders need to convince partners based on a strong vision, evidence, credibility and honesty, and they need to create trust and enthusiasm among partners. This is, for example, why many tech players (such as Google, Amazon and Apple) struggled to establish themselves as orchestrators in the healthcare space.
- **Humbleness:** Effective leaders in business ecosystems need to spearhead all the required changes in leadership characteristics and behaviour listed above. We found that this is facilitated by certain personality traits and manners that contradict the popular image of an omnipotent leader. Successful ecosystem leaders tend to be more curious than determined, more humble than assertive, better at listening than presenting, and they exhibit strong empathy and are willing to admit mistakes and make compromises. Indeed, one of the key strategic choices when designing an ecosystem – whether to orchestrate or play the role

of a contributor – is an act of humbleness. We observe that almost all companies considering building an ecosystem assume that they can play the orchestrator role, although arithmetically few can eventually do so. Furthermore, we have shown that complementors can be highly successful.

Indeed, most examples of successful incumbent transformations from individual performer to ecosystem player have been led by visionary CEOs. Think of Sam Allen at John Deere, Zhang Ruimin at Haier, Ma Mingzhe at Ping An, Piyush Gupta at DBS and Satya Nadella at Microsoft. Microsoft is itself a fantastic take of a firm that, under Gates, played the ecosystem game like a pro, teaming up with Intel to dominate the world, but later, as it became successful and cash-focused lost its ability to support, inspire trust, and be humble. Windows Mobile was thus a spectacular failure, which, however, led to reflection and change - shifting away from its hardball past to a more collaborative approach, opens its interfaces for integration with other platforms, and no longer try to dominate its ecosystems, leaving room for others to lead.

Digital ecosystems have already transformed the corporate landscape starting with B2C businesses, and this dynamic seems set to continue as the new choice spreads to B2B businesses, more regulated industries like insurance and healthcare, and to the public sector.



The choice is very different from traditional structural and strategic options and requires different leadership behaviours and ways of thinking. One of the most important but also under appreciated risks for legacy companies embracing ecosystems is that existing leaders transfer traditional leadership approaches and skill-sets to situations where they will not work. Conversely, the opportunities for firms in all sectors who want to go beyond their traditional recipes to find dynamic, collaborative ways to grow abound, provided they get their strategy and leadership skills right. Time to retool.

A fully referenced version of this article is available by request from editor@dl-q.com

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