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Business ecosystems. What do they mean for your company? And how do they impact your role as a leader?

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**BUSINESS
SCHOOL**

**WHAT DO THEY MEAN FOR YOUR
COMPANY? AND HOW DO THEY
IMPACT YOUR ROLE AS A LEADER?**

BUSINESS ECOSYSTEMS

White paper by Prof Dr Katleen De Stobbeleir
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INTRODUCTION

Recently, two competing Belgian telecom giants, Telenet and DPG Media announced an intensive strategic collaboration in response to the increased competition from global players like Netflix, Disney+ and Apple TV. Such strategic partnerships between organizations are not new. Think of the collaboration between two Dutch companies, Douwe Egberts and Philips, which led to the introduction of the Senseo coffee machine. Most of these strategic collaborations consist of clearly defined and formalized projects, in which the legal departments are closely involved in delineating the partnership as well.

But the world is changing rapidly. And so is the way in which organizations partner with each other. Changing customer expectations, increased regulation, new technologies, and the societal risks that come with a globalizing economy shape the strategic agendas of many CEOs. These evolutions force organizations to rethink the way in which they collaborate with partners. Whereas in the past, organizations focused on a selective number of strategic partners, who were carefully selected based on strategic fit and complementarity, companies increasingly bring a much bigger group of partners and stakeholders together in more organic and evolving networks of partnerships, or so-called 'ecosystems'. You might think of ecosystems as a buzz word. And yet if you go into detail, there are certainly several examples of ecosystems that have existed for many years.

What is truly unique, and what differentiates them from traditional strategic partnerships, is that ecosystems are continuously evolving networks of many stakeholders (providers, societal partners, suppliers, distributors, customers, governments, competitors, etc.) that join forces to develop and/or offer products or services via collaboration as well as via competition.

Business ecosystems often emerge to deal with complex challenges that cannot be addressed by a single organization alone. Challenges can range from optimizing the client experience, to more societal challenges like healthcare, waste management in communities, or finding staff in the war for talent. Increasingly, ecosystem thinking is also used in the pursuit of commercial goals. One of the most well-known commercial applications of ecosystems might be Alibaba, an e-commerce platform that brings together suppliers and customers of goods, and which has commercialized this service. Also companies like TripAdvisor, Booking.com, Airbnb, Amazon, and Bol.com work according to an ecosystem approach.

Seeing ecosystems as merely a hype and ignoring their potential could be costly for your business. Think of the retail chain Blokker, a company that in its high days had 2825 physical stores.

In 2012, the company had the unique opportunity to buy the now very successful e-commerce platform Bol.com. Not believing in e-commerce and the power of ecosystems, Blokker did not pursue this opportunity, and missed out, not only on the opportunity to develop its own e-commerce activities, but also on developing the potential of becoming a platform organization. These decisions brought Blokker into severe financial difficulties, and resulted in several reorganizations.

Such examples highlight that ecosystem thinking is not a nice-to-have, but an essential part of doing business. That said, it's just as important not to impulsively start to collaborate in an ecosystem without putting a great deal of thought into the purpose of it. This kind of collaboration may put your organization at risk as well. For example, by opening up their systems to many different players, several car manufacturers have partially missed the boat of mobility services, leading to their 'platformization'.

Examples like this highlight the importance of considering the opportunities that ecosystems entail, but also the challenges that come with them. How can your organization benefit from ecosystem thinking? What are triggers that could prompt your organization to work with your ecosystem? And how to structure such collaboration? These were the questions that prompted us to write this whitepaper and to organize a full-day conference for the member organizations of the Centre for Adaptive Organizations at Vlerick Business School – a centre that aims to help organizations become more effective in dealing with a dynamic and fast-changing environment. This whitepaper is based on interviews with the 10 partners of the Centre for Adaptive Organizations, as well as interviews with experts in the field.

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WHAT ARE THE TRIGGERS FOR ECOSYSTEM THINKING?

By engaging with your ecosystem, you can respond more effectively to challenges that go beyond your own organization. The research we have conducted with the Centre for Leading Adaptive Organizations shows that organizations typically initiate, or participate in, ecosystems to address challenges that revolve around four major themes:

1. Changing customer expectations

Regardless of whether your customer is a client buying your product, a job applicant applying for a job in your company, or a civilian dealing with a government agency, it is clear that customer expectations are changing radically, and that customers become increasingly demanding of what they're expecting from the organizations with whom they interact. Customers expect more personalization from organizations when they purchase products or make use of their services, and they expect to be cared for better and more quickly than ever. By working in ecosystems, organizations can develop innovative solutions for these changing customer demands.

2. Changing regulations and market dynamics

The scope of government regulations (e.g., GDPR, cybersecurity, regulation of financial markets) is vast and influences all sectors of the economy. Regulations are often necessary for a well-functioning, market-based, capitalist society, but they also bring about complexity that can pose a challenge in a competitive global environment that one company alone cannot cope with. Ecosystems can help organizations and societies cope with such increased complexity.

3. Influence of New Tech and rapid technological evolutions

The Internet of Things, Blockchain, Artificial Intelligence, and the evolution to the platform economy have marked the beginning of the digital economy. As the digital economy continues to grow faster than the old economy, several tech giants are emerging (e.g., Apple, Facebook, Amazon), which make up more than 40% of the value of the Nasdaq 100 index. For a 'small fish', it can be challenging to see how to compete with these giants. But even tech giants are not perfect. For example, Amazon and Google, have not yet succeeded in creating bias-free software. Similarly, producing region-specific content or niche-content in local languages may be a challenge for companies like Facebook and Netflix. By joining forces and working with your ecosystem, your organization can better position itself in the evolution to Big Techs.

4. Societal challenges

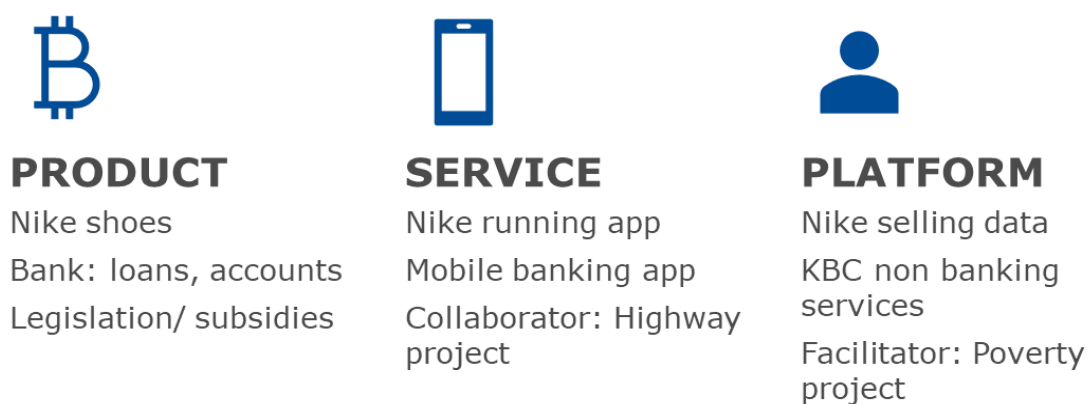
There are also a number of societal trends that impact business today. These challenges include (amongst many others): health (e.g., the spread of viruses), global warming, water shortage, energy concerns, emissions, poverty, etc. Obviously, these societal challenges cannot be addressed by one company alone and require a collaborative approach. One example of a collaboration that focuses on reducing the environmental footprint of companies is Ecluse. Ecluse supplies steam generated from waste incineration to six chemical companies in the port of Antwerp. These companies no longer have to generate their own steam, which will reduce CO2 emissions by as much as 100,000 tons per year. Another example of an ecosystem with a societal purpose is a project focused on offering poor families vacations and getaways at low rates. For this project, governments, poverty organizations and the travel industry joined forces to come up with an innovative offering.

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HOW DOES ECOSYSTEM THINKING FIT INTO CURRENT MARKET EVOLUTIONS?

Ecosystem thinking also goes hand-in-hand with two big waves of evolutions that various industries have been confronted with over the last few decades – namely, the evolution from product-based to service-based value creation, and from services to platforms. Figure 1 summarizes these evolutions and provides some examples of how these evolutions have impacted organizations as well as entire industries and even governments.

Figure 1 – Market evolutions that prompt ecosystem thinking



From product to services

A first wave pertains to the evolution from products to services, which has been visible in almost every industry. For example, whereas Nike used to be a producer of shoes, they have gradually switched to becoming a service organization by offering apps, customized gear, etc. Or think of the financial industry. Whereas the banks' main products used to be loans and bank accounts, over time the apps and services that were built around these products have become increasingly important. For governments, this can mean making the switch from simply being a provider of laws and subsidies to also being a collaborator that works together with the community for big infrastructure works like building a highway.

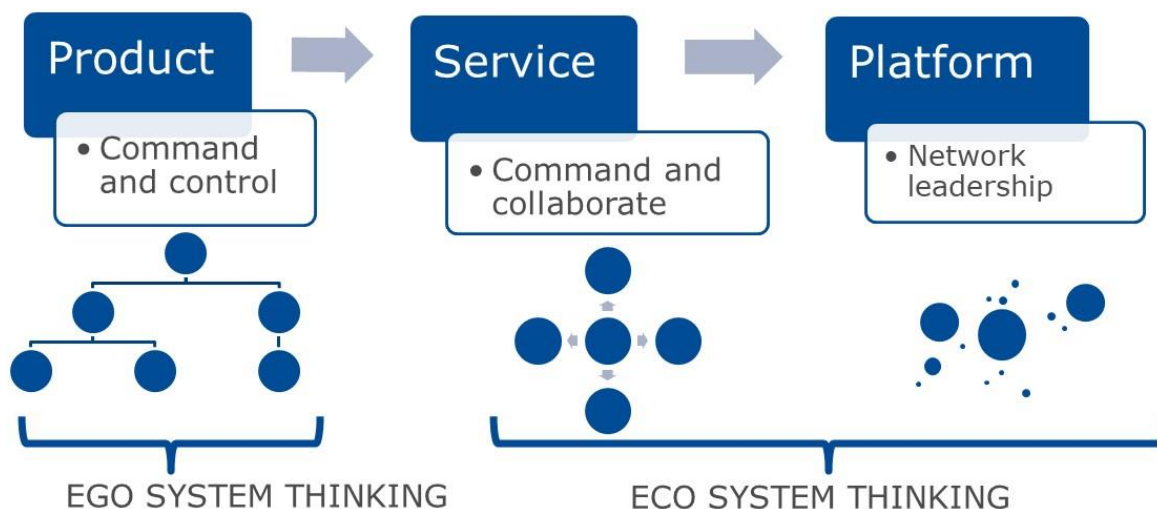
From services to platforms

A more recent evolution that requires organizations to rethink the way they do business is the evolution towards the platform industry. For many companies, this means that, instead of using data to improve the experiences of existing customers, the data and the services that you have built around the data become one of your key products. For example, for Nike this could mean selling the running data of the runners who wear their shoes to coffee shops so that these coffee shops can decide more effectively where they should be located. For banks, this could mean developing an open banking app that you can use, regardless of whether you are a customer of that bank or not. But platforms should not always be data-driven. For example, for a government, the evolution to platforms could mean that, instead of providing regulation or pre-defining the projects that require collaboration, the government brings different parties together to develop their own solutions (i.e., not pre-defined by the government) to address complex societal problems (e.g., the vacation for poor families project we mentioned above).

What do ecosystems mean for leaders?

As illustrated in Figure 2, these evolutions also have implications for leaders and require a shift in mindset from ego-system thinking to eco-system thinking. Below, we elaborate on what this entails.

Figure 2 – Evolutions in leadership: Leading or participating in an ecosystem requires a radically different leadership approach



In their book *The Ecosystem Edge*, Peter Williamson and Arnoud De Meyer shed some light on what type of leadership this requires. An ecosystem consists of many different self-organizing elements within and outside your organization that you cannot 'manage' using the traditional management systems. Ecosystem leadership requires you to accept that the different self-managing parts of the ecosystem have their own ways and may evolve independently. So, you can't directly control or steer the ecosystem's direction or the solutions it comes up with. That's why it's essential that the various partners share a common purpose and be willing to put aside their own interests for that bigger purpose, because it creates a win-win for all parties. It all boils down to bringing partners together around a shared purpose, while also accepting that the goals of these partners are not all fully aligned.

Whereas in today's organizations you need to let go of control to keep the workforce motivated, in an ecosystem it's a matter of survival. And that's easier said than done, because it ultimately requires you to let go of preconceived solutions and ideas and stay open to alternatives, while being transparent about your own interests. Therefore, to make the ecosystem work, being open to participatory decision-making should be a key leadership characteristic of all of the partners. It's about having a growth mindset and acting in the interest of the ecosystem as a whole, rather than merely in your own, or your organization's, interest. Ribeiro-Soriano & Urbano (2009) summarize it very well. According to their research, to make ecosystems work, the various partners should embrace a leadership style that reflects: (1) Openness to the goals of the various stakeholders, respecting the fact that they may have different views on what the problem entails as well as on how to solve it; (2) Trust between the different partners that is built on full transparency about their various interests; (3) Coordination/structure that relies on facilitation instead of rigid structures and processes.



Ecosystem leadership requires you to accept that the different self-managing parts of the ecosystem have their own ways and may evolve independently.

HOW TO ORGANIZE ECOSYSTEMS?

There are different ways in which you can apply ecosystem thinking in your organization. In our research, we identified four main ways in which organizations engage with their ecosystem. Here is an example of each:

Hackathons

Practicing co-creation and engaging stakeholders is often successfully done by organizing Hackathons: i.e., intensive, time-limited collaborations that result in new products or services. For example, after already developing a successful app to detect early-stage Malaria based on the contributions of a first Hackathon in 2016, the pharmaceutical company Pfizer organized another hackathon in February 2020. In this hackathon, Pfizer invited the part of their ecosystem that is most affected by their products – namely, the patients – to work together with entrepreneurs, medical professionals, web developers and designers (among other) to come up with solutions that improve their own, and other patients', lives.

So, ask yourself: How could you organize a Hackathon with your organization's ecosystem? What problems could you solve involving different players? How would it enhance the capabilities of the ecosystem?

Corporate Venturing

Another approach to engage with an ecosystem is corporate venturing. By providing necessary funding for firms in their early stages, large established companies can foster innovation within their ecosystem and maintain a better overview of potential threats and opportunities. With a focus on supporting new technologies (e.g., material processing, sustainable manufacturing, ...) the steel company ArcelorMittal and the Flemish Region joined forces in a 50/50 partnership to create Finindus, a hybrid venture capital investment company. Through this joint venture, ArcelorMittal includes Findindus' rich portfolio of innovative firms in its ecosystem and connects them to its broad network and expertise. This gives the company a unique window on the latest technological developments while strengthening the resilience of the ecosystem by adding fresh and original perspectives.

So, think about which relationships would strengthen your ecosystem. What are the external opportunities and threats that are coming your way, and how could corporate venturing help your organization make the best out of them?

CONCLUSION

In today's turbulent environments, ecosystem thinking is not a nice-to-have, but an essential part of doing business, as it enables your organization to tackle complex challenges that cannot be addressed by your organization alone. Ecosystems go beyond traditional partnerships in the sense that they involve multiple partners, which are constantly evolving towards a joint goal in a rather organic (rather than contracted) fashion.

Leading an ecosystem requires a mix of collaborative skills, clarity and transparency about your own goals and interests, as well as openness towards the goals and interests of your partners.

We hope the insights in this whitepaper will enable your organization to start a fruitful discussion about what ecosystems could mean for your organization, and what the implications for leadership are.

Recommended Readings

The Ecosystem Edge. Peter Williamson and Arnoud De Meyer (2020)

Overview of Collaborative Entrepreneurship: An Integrated Approach Between Business Decisions and Negotiations. Ribeiro-Soriano & Urbano. Group Decision and Negotiation (2009)

Ecosystem economy: What's your strategy? Michael G. Jacobides. Harvard Business Review (2019)

Adapting to Grand Environmental Challenges through collective entrepreneurship. Jonathan P. Doh, Peter Tashman, Mirko H. Benischke. Academy of Management (2019)

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