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ECOSYSTEM

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Sustaining Competitiveness
in the Face of DISRUPTION

How to build and manage an Ecosystem for Innovation

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Why...?

- ...had Amazon Web Services (AWS) a dominant market share of 32% in Cloud Services in 2018?
- .. Did London Stock Exchange offer US\$ 27B for Refinitiv, formerly part of Thomson Reuters
- ...has the UK based newspaper The Guardian been able to build a successful global news website (#10 on the eBiz | MBA rank ahead of WSJ and BBC)?
- ...was Rolls Royce able to build up quickly a supply of skilled employees when it launched its manufacturing site in Singapore in 2010

Why...?

- ... was the Cambridge headquartered producer of risc processors ARM sold for US\$ 31 B to Softbank in 2016, when it had only slightly more than 4000 employees worldwide?
- ...has the share price of the French PLM software producer Dassault Systemes been multiplied by more than 7 times between 2005 and 2019?
- ...can Alibaba Group have annual revenues in 2018 of about US\$800,000 per employee, while Amazon does US\$ 360,000 per employee?
- ...did Elliott Management and Veritas Capital offer in October 2018 US\$5.7 B for athenahealth, a US provider of network-enabled services for healthcare and point-of-care mobile apps?

*(partially)
because
they
innovated
through
ecosystems*

When confronted with a high degree of uncertainty, *ecosystems* may well be the best form of organization to innovate and create new value and improve efficiency in value delivery

Current
organisational
forms are not
universal or
perennial – a
bit of theory

The currently prevailing model of the multi-divisional firm is a creation of the late 19th century, in order to cope with the growing scale of industrial firms in the pursuit of economies of scale

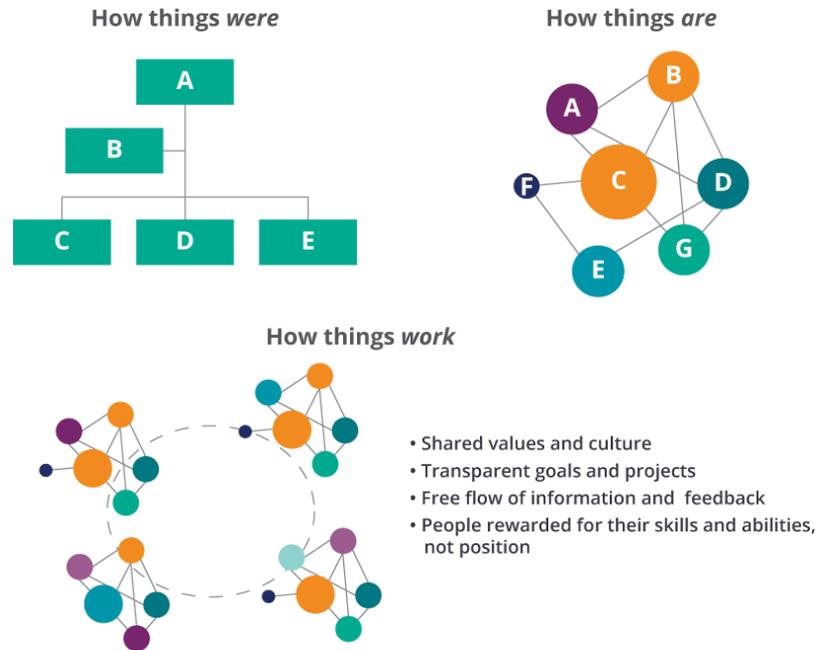
But many other forms existed and continue to exist: professional partnerships, temporary associations, bureaucracies, markets, etc.

Simplifying one can say that organisations exist to solve the issue of specialisation and coordination (or differentiation and integration)

Firms exist to avoid high transaction cost of coordination; markets are supposed to create an optimal production and allocation

Practice is often different

Figure 2. A network of teams



Organisations need to change in the 21st century

We are more and more moving to a knowledge intensive economy. Contrary to other production factors knowledge gains in value the more it is used. It is like a public good.

Agility and speed have become more important for an organisation than stability, predictability and control

ICT now enables instantaneous worldwide coordination and interaction

The nature of work is changing due to automation, AI, machine learning

In an aging society the composition of the workforce is changing

Customer activism and government regulation will render customer focus more important

Some expected changes

Generally speaking, I expect organisations to become more focused, smaller and adopt more matrix structures. That does not imply that less people will work for a brand or a product portfolio, but they may not be in the same organisation

Jobs will be redefined and recomposed in bite sizes. As a consequence we will see more platform based organisations and human clouds (e.g. the gig economy)

An older form of organisation, the community, may make its comeback

Remember the three fundamental ways of solving the problem of specialisation and coordination

	Markets		Hierarchies
Coordination mechanism	Price		Authority
Disadvantage	Transaction costs		Production and social allocation
Coping with information as production factor	Trade off between production and social allocation		Ineffective for non-routine tasks

Remember the three fundamental ways of solving the problem of specialisation and coordination

	Markets	Hybrids e.g. communities	Hierarchies
Coordination mechanism	Price	Trust	Authority
Disadvantage	Transaction costs	Stability & sustainability	Production and social allocation
Coping with information as production factor	Trade off between production and social allocation	Enlarges the scope of knowledge generation and sharing	Ineffective for non-routine tasks

**A special form
of
communities:
ecosystems for
innovation**

- **“A *business ecosystem* is a network of organisations and individuals that co-evolve their capabilities and roles and align their investments so as to create additional value and/or improve efficiency”**
- *(Moore, J.H., “Predators and Prey: A New Ecology of Competition”, Harvard Business Review, May/June, 1993.)*

The Basic Idea of Ecosystem Advantage is Simple

Creating a Network of Partners That Help Make Your Organisation to be more Successful



Apple was a late convert:

Apps:

>2 million Apps in Q4 2018

170 billion downloads since 2010

“Apple lives in an ecosystem. It needs help from partners. And it needs to help other partners”

Steve Jobs 2007

“

And it has become a popular concept:

In annual reports, the word “ecosystem”
appears 13 times more than 15 years
ago!

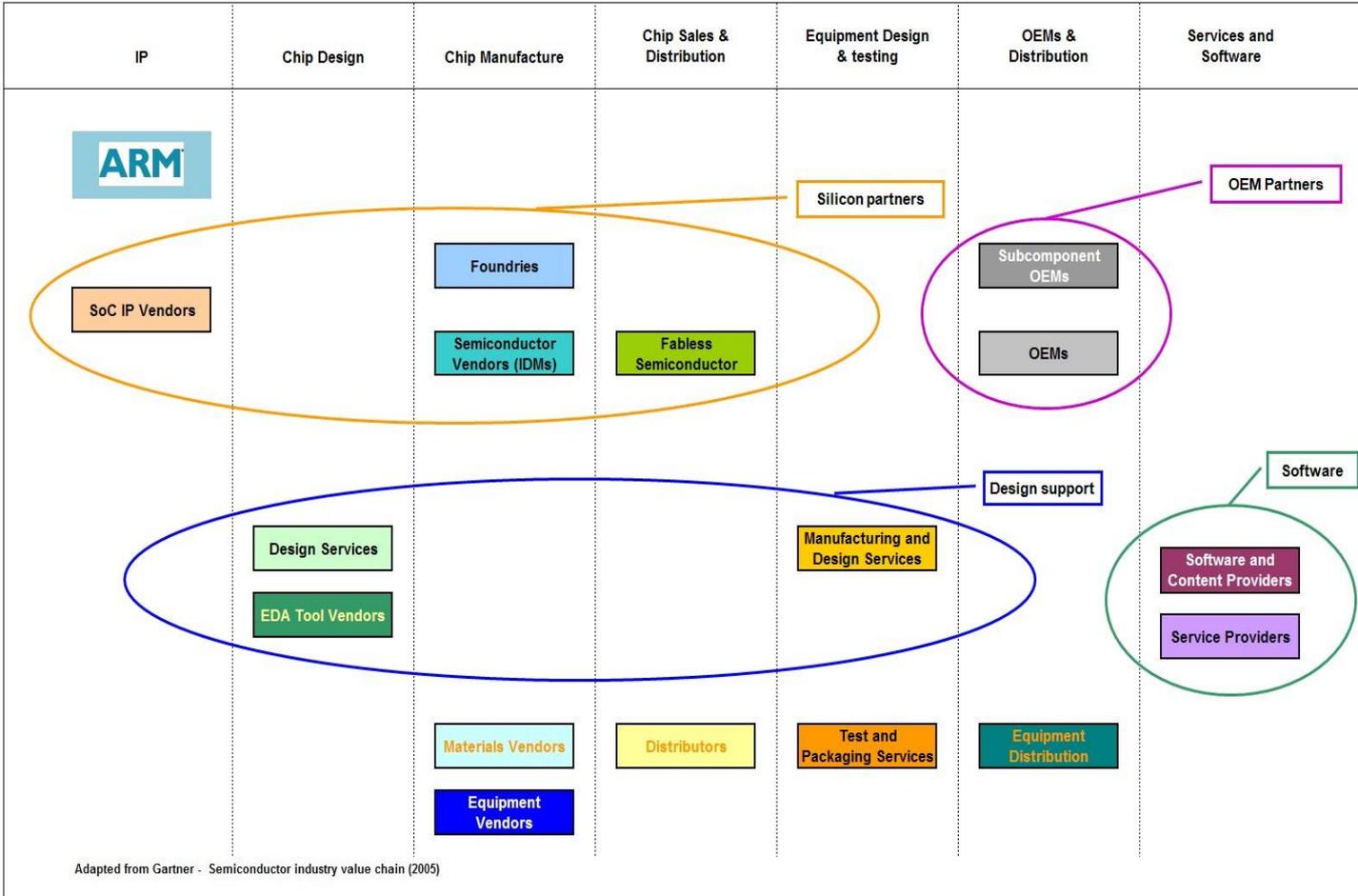
(BCG Henderson Institute, 2019)

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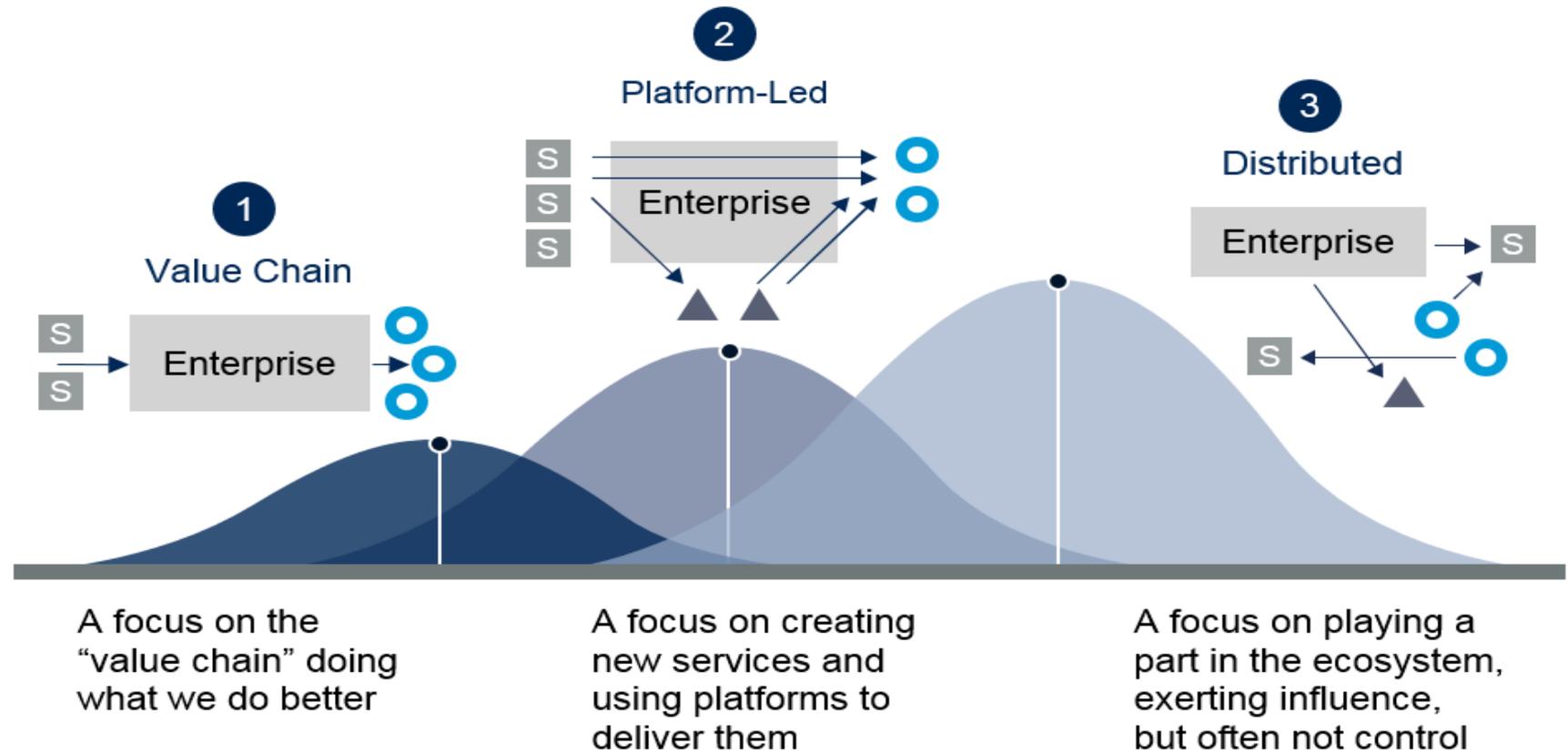
The Benefits of an Ecosystem

- **Joint Learning** by bringing partners together with diverse capabilities
- Enabling the ecosystem leader to take **leadership in Innovation**
- **Fostering flexibility** thus enabling partners to adjust their activities quickly to changing circumstances

ARM Connected Community presence across the Semiconductor industry value chain



Waves of Business Innovation Driven by Technology





The Guardian



Our case studies

- Alibaba Taobao
- Thomson Reuters (Refinitiv)
- The Guardian
- Amazon Cloud Services (AWS)
- Rolls Royce Singapore
- Athenahealth (Veritas Capital)
- ARM (Softbank)
- Dassault Systemes
- ... and many other smaller case examples

淘宝网
Taobao.com



Our organisations exist in a context, and operate in one or multiple ecosystems -- perhaps unconsciously. The challenge is how to optimise the use of these ecosystem to innovate and create and deliver value in the face of increasing volatility, complexity and uncertainty

The Challenge

Overview of the discussion topics



How to create value with an ecosystem



Kick-starting the ecosystem



Growing the ecosystem



Stimulating innovation and learning in the ecosystem



Enhancing productivity



Monetising value in the ecosystem

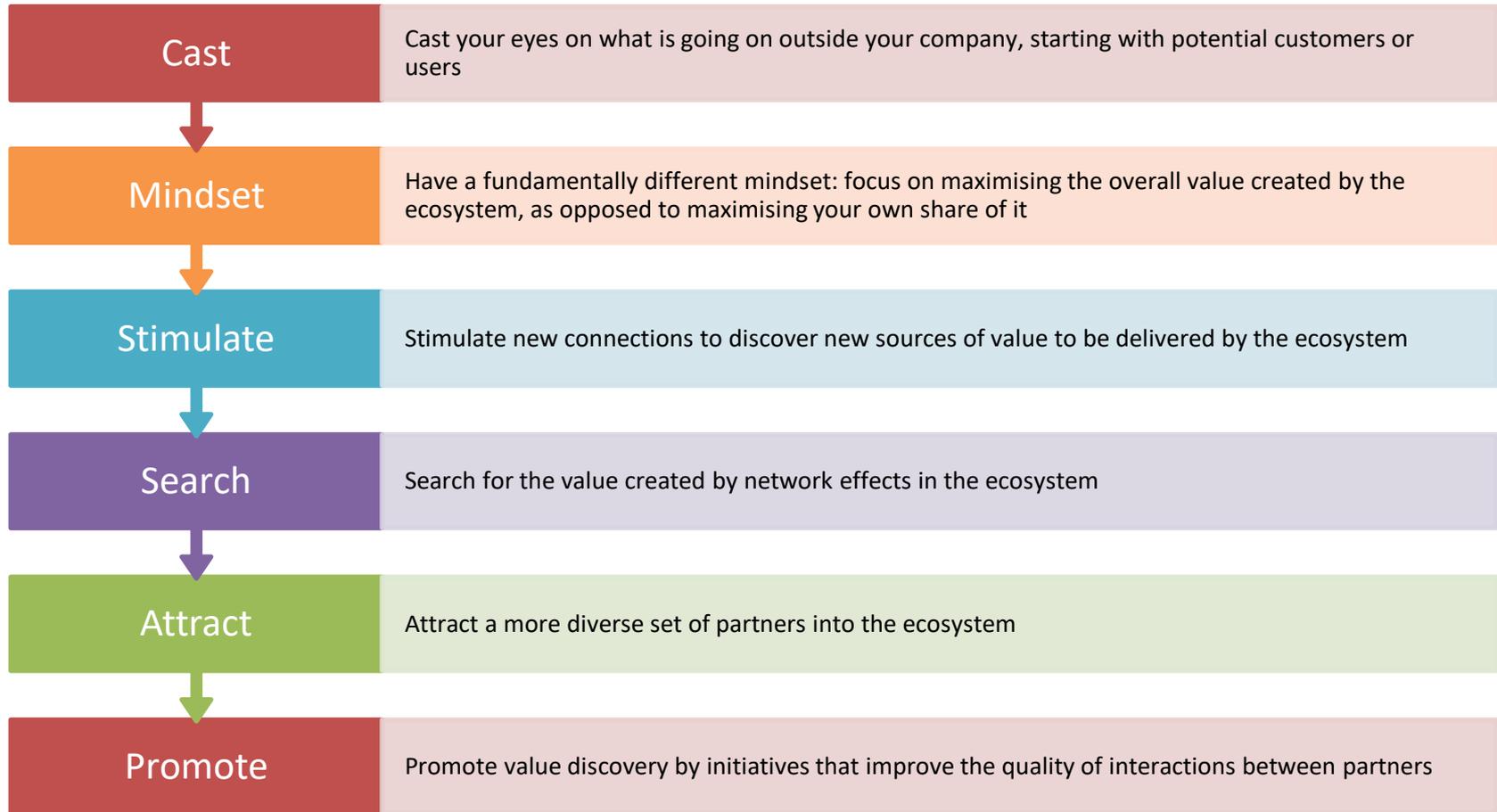


Leading the ecosystem



Evolving the ecosystem and spawning new ecosystems

In discovering value you as the ecosystem leader should:



Six Steps to Kick-Starting the Development of your Ecosystem

Demonstrate

Demonstrate that you really believe in the ecosystem

Co-opt

Co-opt foundation customers

Develop and share

Develop and share a roadmap for the ecosystem

Communicate

Communicate the value of joining

Shrink

Shrink the entry barriers

Look

Look for partners that bring their own ecosystems

Attracting new Partners



Explain in simple terms the value proposition to prospective partners.



Clarify the expectations of partners and help equip appropriate partners to fulfil different roles



Lower the barriers to joining the ecosystem

Designing interfaces for improved productivity

- **Write contracts that focus on high level outcome, leave room for flexibility, are perceived to be fair across the ecosystem and are clear about dispute resolution**
- **Create portals to smooth the path of data exchange between the ecosystem leader, its partners and among its partners, without trying to control all these exchanges.**
- **Develop a set of systems and organisational solutions to manage the exchange of complex know-how**
- **Codify some of the complex and tacit knowledge so that it can be exchanged more efficiently**
- **Encourage mechanisms that help build trust between partners**
- **Agree on governance standards within the ecosystem**
- **Penalise bad behaviour**



How to stimulate Learning and Innovation in the Ecosystem

- Enable the ecosystem to draw in new knowledge from outside which it can use to fuel innovation
- Leverage the knowledge generated in the ecosystem to enhance your own innovation activities
- Encourage learning and innovation among partners in the ecosystem
- Orchestrate the accumulation of “ecosystem goods” that can benefit the whole ecosystem without disadvantaging individual participants
- Strike the right balance between sharing knowledge with the ecosystem to help it innovate and keeping some knowledge proprietary to underpin your own and profitability.

Monetising Value

- **Your strategy must ensure that the ecosystem delivers more value to the end user than any company can single-handedly provide.**
- **You need to identify a keystone: some element of or activity in the ecosystem that you can own and control, and on which the ecosystem's ability to create value for customers depends.**
- **You must set up the right tollgates, in the right places, through which you can collect a share of the customer value that the ecosystem creates**

Designing Tollgates



- Choose the best mix of:
 - License fees – simple to implement, but may discourage partners from joining
 - Royalties and transaction fees – embody a powerful proposition: “the more you earn, the more I earn” but partners may worry that the total costs may become huge over time
 - Selling value-added services – helps to keep down costs of joining, but dissuades partners from deepening their involvement in ways that could be valuable
 - Using data and knowledge to create new profit streams – mostly pure upside, except for potential competition with partners

Elements of the mind-Set of a successful ecosystem CEO



Belief that there is an opportunity to create new value for potential customers



A deep conviction that no single company can unlock the value opportunity acting alone



A focus on attracting, engaging and motivating people who are not necessarily their employees



A relentless focus on growing the size of the overall ecosystem pie

Key Skills required by the Head of an Ecosystem



Listening or the capacity to listen, both to those within your own organisation and to weak external signals and messages from partners



Adapting or encouraging and nudging the ecosystem to respond flexibly to uncertainty



Influencing or deploying your soft power that comes from vision, credibility and respect and evidence to bolster your case with partners



Collaboration or getting things done through a community of peers

Going Beyond the Limitations of Classic Collaborative Leadership

- **Lead beyond your organisation**
- **Build consensus and ensure that a wide group of peers take ownership of most of the decisions you will make**
- **Be an active networker, becoming a trusted source of knowledge and information that others in the ecosystem haven't yet spotted**
- **Embrace diversity and dilemmas, while at the same time develop an overarching identity and goal for the ecosystem**

