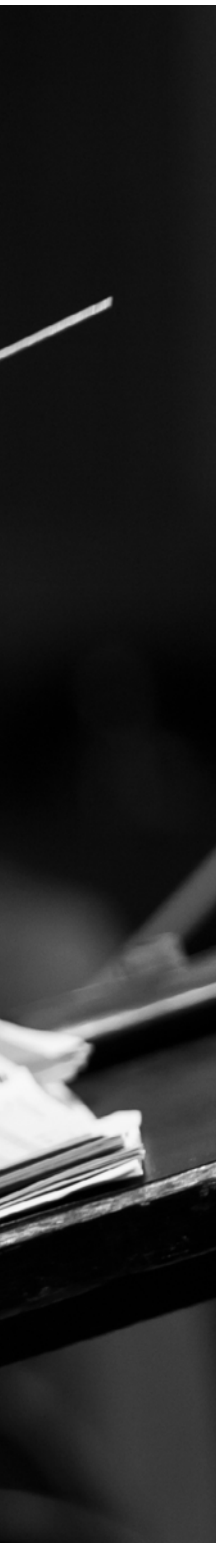
By
Markus Kreutzer and **Pia Neudert**

Ecosystem Orchestration – much more than Strategic Alliance Management



> *Ecosystems are definued as novel forms of organising that are based on non-generic, multi-lateral complementarities among diverse firms, startups, institutions, and other actors. Thus, firms mutually grant access to assets and resources in order to create more value to the customer or to reduce costs substantially*

In today's interconnected world, building and growing a company requires one not only to offer a solid value proposition to the customer but also to manage interrelations with a multitude of partners that co-create value. Instead of tightly controlling dyadic alliances, firms need to align a variety of complementary solutions, always having customer preferences in mind. As a result, companies nowadays orchestrate entire "ecosystems" in order to deliver complex cross-industry solutions to their customers.

From an academic perspective, Jacobides, Cennamo, and Gawer (2018) define ecosystems as novel forms of organising that are based on non-generic, multi-lateral complementarities among diverse firms, startups, institutions, and other actors. Thus, firms mutually grant access to assets and resources in order to create more value to the customer or to reduce costs substantially. All of this happens in settings where each player conforms to a certain role that makes the ecosystem flourish: from a leading "orchestrator" to partners on equal levels to small niche players. As a result, we can observe several paradigm shifts in the way that partner management (and strategic management in general) works when operating in an ecosystem environment.

Paradigm shift #1:
From creating competitive advantage to contributing to a focal value proposition

In order to succeed in an ecosystem, firstly, the value proposition to the customer needs to be clarified. Instead of fighting for a piece of the pie, ecosystem members need to adopt the mindset of enlarging the pie. While established strategy would recommend delineating competitive advantages, nowadays, competitors are increasingly starting to collaborate. This collaboration may manifest, for instance, in agreeing on standardised interfaces for complementors, in bundling complementary resources (e.g., technological platforms), or in hosting joint matchmaking programs to find novel complementors for the ecosystem.

For instance, Amazon, Apple, and Google individually launched smart home ecosystems. However, in order to enable various complementors to contribute to smart home services, they created a standardisation programme. Together with the Zigbee Alliance, the three orchestrators Amazon, Apple, and Google established a standardisation working group, so that complementors, such as Samsung SmartThings, Schneider Electric, Signify (formerly Philips Lighting), IKEA, and Resideo, could freely decide where to offer complementary

products and services. Still, each orchestrator kept their smart home ecosystem independent by offering distinct solutions.

Providing a focal value proposition together with a variety of complementors also challenges traditional corporate hierarchies for decision making. To develop solutions across functional silos and organisational boundaries, firms tend to adopt more flexible ways of working. Instead of conforming to established organisational routines, new paradigms like cross-functional Tribes, Squads, or other forms of agile teams drive the respective value creation steps with end-to-end accountability.

While young companies are often "agile natives," incumbents have to embark on an organisational transformation journey. Balancing clear processes along corporate hierarchies with re-designed agile units and fully experimental setups (e.g., corporate venturing units) requires a differentiated understanding of which organisational design optimally contributes to value co-creation (on an ecosystem level) and value capture (on an organisational level).

Paradigm shift #2:
From thinking in opposites to embracing dualities

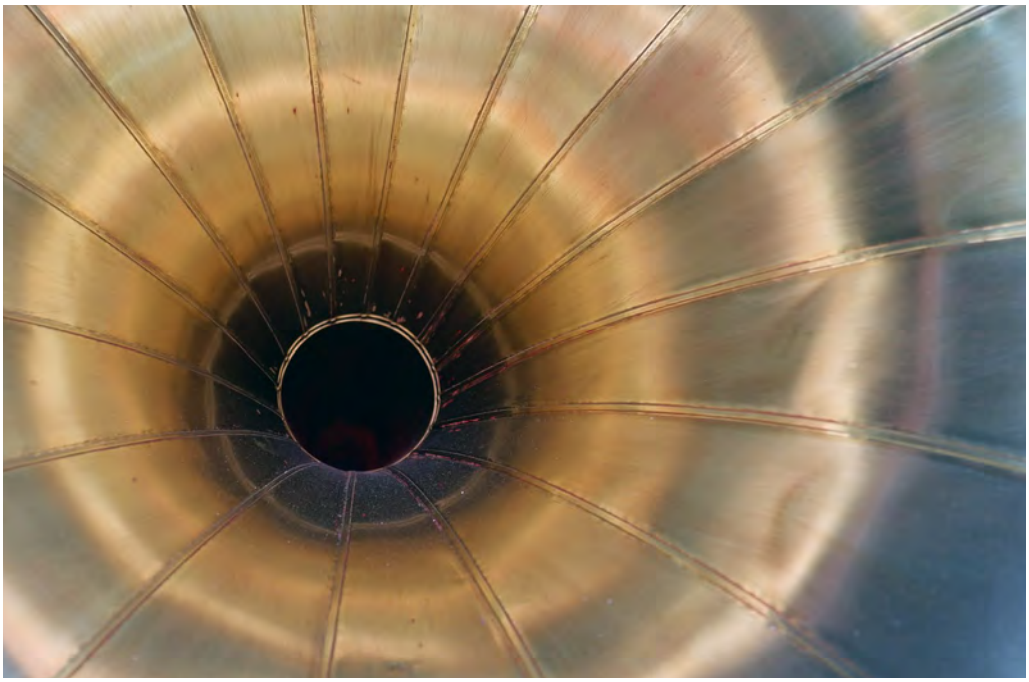
Coopetition – the act of cooperation between competing firms – is a well-known and well-studied phenomenon in strategic alliance management. In addition to the interplay of cooperation and competition, ecosystem orchestration often requires a duality perspective on other seemingly contradictory situations. Wareham, Fox, and Cano Giner (2014), for instance, describe how ecosystem orchestrators need to balance tensions like openness versus closedness, standard versus variety, or individualism versus collectivism. Instead of seeing these contradictions as opposite sides of a medal (i.e., dualism), firms are called to embrace a duality perspective; like Yin and Yang in East Asian philosophies, the seemingly contradictory concepts come together to form a whole and yet remain distinct.

Ecosystem orchestrators have to navigate a delicate balance between such tensions, being aware of the fact that it is not always possible to be clearly positioned on one or the other side of the continuum. For example, when it comes to the "open versus closed" opposition, Apple tried to navigate towards a more "closed" smartphone ecosystem while Samsung and Google tended towards a more open ecosystem with Android operating software. In recent years, however, Apple realised that it needed to open up certain parts of its ecosystem to take advantage of the value co-creation potential of complementors.

Coopetition – the act of cooperation between competing firms – is a well-known and well-studied phenomenon in strategic alliance management. In addition to the interplay of cooperation and competition, ecosystem orchestration often requires a duality perspective on other, seemingly contradictory situations.

Alternatively, innovation ecosystem orchestrators crack up entire industry paradigms by shifting the balance more towards open ecosystems. For instance, Solarisbank built up a Banking-as-a-Service ecosystem in order to remove the barriers for businesses that want to offer their own financial solutions. Together with Samsung and Visa, for example, Solarisbank provided the technological infrastructure and banking license so that customers in Germany can now use Samsung Pay debit cards without opening up a new bank account but instead by simply linking it to an existing one. Thus, while conforming to the tight regulation (and collaboration) standards of the banking industry, novel technologies now enable non-financial players to offer innovative solutions.

Leaders of companies active in ecosystems therefore need to achieve a mindset shift from opposites ("them versus us") to a complementarity-oriented attitude ("collaborative but distinct"). As a result, managers in such settings often have to build multi-faceted identities and distinguish between their internal corporate role and the role they play with other ecosystem participants.



Paradigm shift #3:
From "having a clear vision" to "working with proto-visions"

The multitude of actors and relationships in ecosystems often leads to distinct challenges to ecosystem growth. In particular, due to the large number of complementors, ecosystem orchestrators often cannot pronounce a clear ex-ante vision for the entire ecosystem. Instead, a so-called proto-vision, as it was termed by Dattée, Alexy, and Autio (2018), is iteratively transformed into a clear vision as the ecosystem matures. Along this process, different ecosystem actors weigh up the pros and cons of making non-recoverable investments into ecosystems in order to leverage complementary assets.

For instance, when electronic appliances giant Haier set out to implement its ecosystem strategy, the company spun off so-called microenterprises that are self-governing and self-motivated. As also described in a previous interview with CEO Zhang Ruimin published in Global Focus Magazine, employees in Haier's micro-enterprises were guided to transform into self-managed innovators and collaborators. Although the increasing autonomy was bundled under the purpose of transforming buyers into lifetime users of products and services, the single companies still had to develop a vision for the respective ecosystems on their own. Consequently, based on the Internet-of-Things technology, Haier worked out several ecosystems envisioning the "Internet of Food, Internet of Clothing, Internet of Security, Internet of Air, Internet of Water, Internet of Education and Internet of Health".

However, working with proto-visions does not mean abandoning clear visions entirely. For instance, if an insurance company today wants to set up a digital health ecosystem, it may have a certain vision in mind (e.g., providing preventative measures before a claim arises, enabling a seamless patient journey for certain diseases, or suggesting data-driven recommendations for customers aiming to improve their health), which then also attracts complementors. However, the ecosystem level vision emerges only after complementors have revealed their contribution to the ecosystem, thereby co-designing the vision for the entire ecosystem.

We, as educators, have to sensitise our students to work more collaboratively but also to work with increased uncertainty. While this can lead to more friction, it also provides room to manoeuvre, often based on a trial-and-error mindset

What this means for us as educators

We observe that companies from a wide range of industries can no longer serve the increased customer demands as single players. Instead, with increasingly specialised and complex business problems to be solved, firms shift towards ecosystems in order to bundle their complementary resources and offer modular products and services. As De Meyer (2021) also pointed out in the preceding article on what business schools can learn from business ecosystems, a mindset shift among all involved stakeholders is necessary. We expand his argumentation by stressing the value of togetherness ('contributing to a focal value proposition'), working with tensions and contradictions ('embracing dualities'), and active acceptance of uncertainty ('working with proto-visions').

Consequently, apart from instilling an ecosystem mindset in business school leaders, our curricula and didactic tools also need to incorporate and convey these mindset changes. We, as educators, have to sensitise our students to work more collaboratively but also to work with increased uncertainty. While this can lead to more friction, it also provides room to manoeuvre, often based on a trial-and-error mindset. Allahar and Sookram (2019) even suggest that business schools need to transform towards entrepreneurial ecosystems that empower students to actively contribute to building an ecosystem that includes all members of a university's network.

Hence, continuing De Meyer's (2021) line of argumentation, business schools may become a physical and virtual "platform" for the exchange of knowledge, innovative and entrepreneurial activity, and life-long learning. As educators, we must therefore open up and accept that our own faculty is not the sole provider of content, but that other sources, like MOOCs (e.g., Coursera), TED Talks, or EdTech start-ups (e.g., TOMORROW's education) can provide complementary knowledge. It remains our mission as business schools, however, to add our own specific "touch", the personal interaction, and take over the mediation role between the different parties in our ecosystems (e.g., research and practice). Ultimately, this is also our lever for sustainably capturing some of the value in an ecosystem world.

About the authors

Markus Kreutzer is Professor of Strategic and International Management at EBS Universität für Wirtschaft und Recht with a focus on inter-organisational strategy-making, organisational renewal and adaptation, and business model innovation. From 2017 to 2019 he was Dean of EBS Business School.

Pia Neudert worked for nearly one decade in the aviation industry, where she collected rich managerial experiences in global alliance and joint venture management. Her current research at EBS Universität für Wirtschaft und Recht is in the domain of ecosystems, focusing on configuration, governance, and development aspects.