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Quarterly

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## **Ecosystem Leadership**

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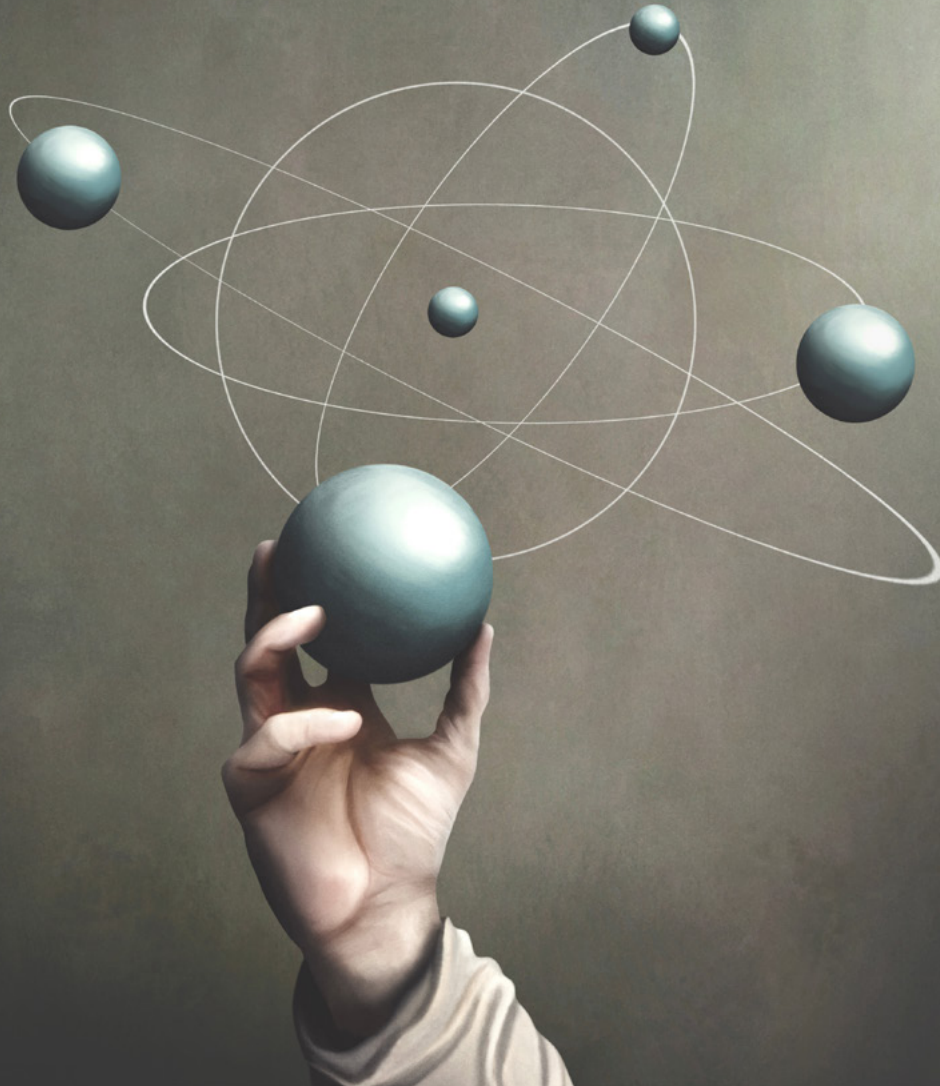
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Roland Deiser

# The Art of Business Ecosystem Leadership

## A Capability Framework for the New Ball Game

Over the last few years, business ecosystem strategies have moved centre stage in many organizations. This should not surprise us. As digital technologies disaggregate existing industries and value chains, companies are faced with transformation challenges and growth opportunities that requires them to ‘jump’ across conventional boundaries that used to define their ‘space’. They are forced to form novel alliances and partnerships to complete a value proposition, design a compelling business model, assure excellence along all steps of the customer journey, or gain access to a new market.

***Cumbersome, bureaucratic decision processes are poison for collaboration and co-creation, which thrive on flexibility, agility, and speed.***

The complexity of the business ecosystem engagement can be confusing and overwhelming. While many companies are eager to move forward, most still have a limited understanding of the inter-organizational dynamics between the participants of an ecosystem, and what it takes to lead in these contexts.

To address these challenges, we have developed a simple framework that should help structure the arena and allow organizations and their leaders to get a better grip on the subject. It outlines key success factors of ecosystem performance, and the capabilities organizations need to successfully shape and institutionalize them.

But first, a few words about the peculiarities of business ecosystem leadership.

## **Business Ecosystem Leadership**

When we talk about leadership, we intuitively think of leaders who are strong personalities – may they be charismatic, heroic, enabling, servicing, or else. When it comes to business ecosystems, the values, mindsets, behaviours of individual leaders who engage in

cross-organizational activities naturally remain important. However, to fully understand the nature of business ecosystem leadership, we must conceive it as an *organizational* capability (like we call successful companies “industry leaders”).

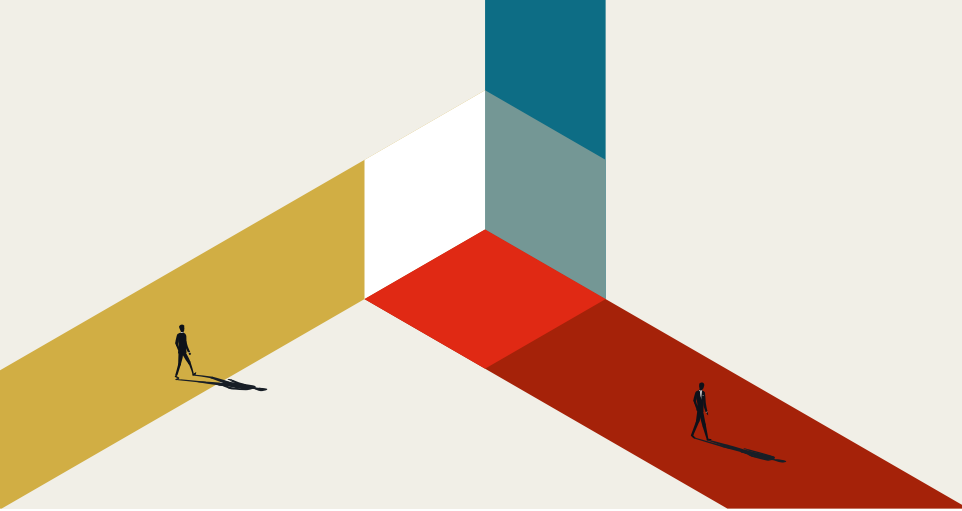
We define effective business ecosystem leadership as an organization’s ability to design its strategy, operations, and relationships in a way that has a constructive, enabling impact on the strategy, structure, and dynamics of an ecosystem<sup>1</sup>. Building on this definition, we must consider three interrelated angles that relate to mastering this challenge:

### **1. The Strategy Angle**

Ecosystem engagement requires *two levels of strategic thinking*: the ecosystem strategy of an organization, and the strategy of the ecosystem itself. The latter runs contrary to the traditional aim of maximizing a company’s success at the expense of others. Mindsets that are anchored in zero-sum thinking and that pursue egocentric advantage are incompatible with the win-win attitude that is indispensable for successful ecosystem engagement. The strategic rationale of the ecosystem becomes as important as the strategies of the individual players. Ecosystem leaders excel in marrying these two strategic thrusts.

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<sup>1</sup> This definition was first developed as a result of a global research effort, documented in Deiser, R.: Organizing for Business Ecosystem Leadership. Insights from Expert Conversations and a Global Survey. CFFO Press, 2020



***Ecosystem leadership requires a thorough knowledge of the partnership universe and the ability to assess the strategic, organizational, and cultural implications of teaming up with potential candidates.***

## **2. The Organizational Angle**

Successful ecosystem engagement requires a *different level of organizational design sophistication* that recognizes and addresses the interplay between cross-organizational dynamics and the individual organization. Command-and-control-based operating principles that may work well within the boundaries of a company become dysfunctional in the context of an ecosystem that requires a collaborative approach to governance, limiting the power of individual players. Cumbersome, bureaucratic decision processes are poison for collaboration and co-creation, which thrive on flexibility, agility, and speed. In a nutshell, *the diseases of the 20<sup>th</sup> century organization are antithetic to the requirements of ecosystem formation and leadership.*

## **3. The Relationship Angle**

Finally, to succeed in business ecosystems, organizations must excel in a *complex level of relationship management*. Ecosystem engagement comes with significant investments in a diverse portfolio of relationships. Each relationship comes with its own dynamic and requires a custom treatment of shared boundaries. In this context, companies must strike with each partner the optimal balance between openness and safeguarding. This poses a major challenge for many organizations as inward orientation and silo culture make it hard to reach across the aisle and create the trust and compassion that is so critical in the underregulated context of an ecosystem.

## A Nine-dimensional Capability Framework

Based on these insights, we have developed a framework of nine critical capabilities that organizations need to actively shape business ecosystems and leverage their potential. Structured along the three angles of strategy, organization, and relationships, they form a powerful combination of elements that enable business ecosystem leadership. They provide a guideline for companies who want to thrive in the new ball game<sup>2</sup>.

Let us now briefly summarize each dimension of the framework:

### Strategic Dimension #1 Decentration Competence

Ecosystem leaders transcend the self-interest of their organization in favour of a superordinate view of the *ecosystem's* strategy, operations, and performance. To shape an ecosystem, companies must be able to step out of an ego-centered frame of reference and see the world as a complex network of interrelations – a capability I call “Decentration Competence”.

Ironically, overcoming self-interest requires first and foremost a thorough awareness of one's own capabilities and purpose. Only a strong self-identity provides the basis for credibly defining and sustaining a position within the

*The Nine Capability Domains of Business Ecosystem Leadership*



<sup>2</sup> Deiser, R.: How to Succeed in Business Ecosystems. A Capability Framework for Business Ecosystem Leadership. CFFO Press, 2021 – available at [www.futureorg.org](http://www.futureorg.org)

ecosystem and allows to relinquish control and “let go”. A strong identity also enables an unbiased appreciation of ecosystem partners as well as a decentered view of the overall system dynamics. “Purpose” as anchor of identity, and as glue that mitigates the centrifugal forces that come with cross-organizational engagement becomes ever-more important.

### Decentration Competence – Critical Capabilities

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- Perceive yourself not as center of the universe but as part of an overarching system
  - Understand the interdependencies and dynamics between the system’s stakeholders
- 

### Strategic Dimension #2

#### Dual Strategic Acumen

By definition, ecosystems are based on a value proposition that can only be delivered by a collaborative effort of interdependent stakeholders. As organization of organizations, an ecosystem has its own identity, purpose, and strategic intent - ideally co-created and shared by all partners.

At the same time, each member of an ecosystem participates with their own purpose and their internal strategy that guides their contribution. Its these individual strategies that allow each partner to create for them-

selves a unique position in the system that is important for the collaborative value creation and cannot be made redundant by others.

The two levels of strategy – one on the ecosystem level, the other one on the partner level - are interconnected and equally important, but they follow different rationales. Influential ecosystem players have “Dual Strategic Acumen”; they can integrate their individual strategy with the overarching strategy of the ecosystem.

### Dual Strategic Acumen – Critical Capabilities

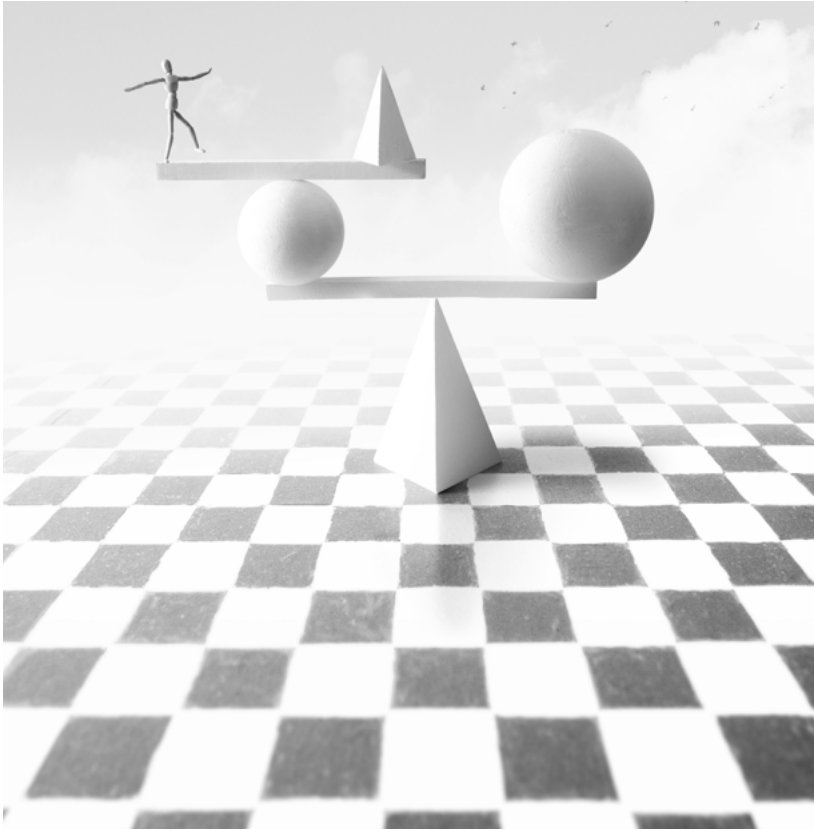
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- Have a clear understanding of your own AND the ecosystem’s business rationale and purpose
  - Combine your own strategy with strategic requirements of the ecosystem
- 

### Strategic Dimension #3

#### Partner Selection

The composition of partners is a critical success factor for the performance of an ecosystem as different partners create different strategic opportunities and come with different challenges. Ecosystem leadership requires a thorough knowledge of the partnership universe and the ability to assess the strategic, organizational, and cultural implications of teaming up with potential candidates.



Due to the prominent role of collaboration and co-creation in ecosystems, considering a partner's "soft" factors such as culture, leadership mindset, values, social competence, and agility is as important as assessing "hard" factors such as IP ownership, product/service fit and excellence, financial health, market presence, or brand equity.

Interorganizational collaboration works best between stakeholders that enjoy flexibility and have at the same time the political gravitas to influence and transform their "home" organization. Ecosystem partner selection requires not only traditional marketplace intelligence but also cultural due diligence - down to the level of knowing the individuals and teams with the best collaboration capabilities.

### Partner Selection – Critical Capabilities

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- Understand the necessary building blocks to realize the ecosystem business idea and identify appropriate partners
  - Assess the collaboration capabilities of partners and the political gravitas of delegates
- 

### Relationship Dimension #1 Polydexterity Management

Ecosystem participants tend to differ substantially in size, operating models, and the role they play in the value-creation cluster. Members may include major digital platform players such as Google or Amazon; large incumbents from the "old economy" that are in different stages of digital maturity; smaller niche players that are highly specialized; university labs and start-ups that hold critical IP; and others. They may each act within different regulatory environments, have different ownership



structures, different cultures, different levels of experience with ecosystem engagement, and different attitudes towards collaboration.

Equally different are the relationships. They may include joint ventures, licensing agreements, technology partnerships, open innovation platforms, temporary project collaboration, and more. Each relationship comes with its own strategic importance and power dynamic that determines the type of deals, which can be standardized or specific, temporary or permanent, tight or loose. This multiplicity of deal types results in a complex contractual architecture.

Coping with this massive diversity requires sophistication in what I call *polydexterity management* - the ability to engage concurrently with the multiple operating models and deal types of an ecosystem. Mastering this challenge requires not only an appreciation of the idiosyncrasies of each relationship type but also a high degree of flexibility in dealing with the various rationales that come with each collaboration.

### **Polydexterity Management – Critical Capabilities**

- Manage the multiple relationships/deal types that constitute an ecosystem
- Appreciate the diverse portfolio of operating models from various ecosystem partners



Photo by Skye Studios on Unsplash

### **Relationship Dimension #2 Boundary Management**

Smart boundary management is another key success factor for networked organizations. Boundaries are places of productive friction; they fuel creativity, learning, and innovation – a critical source of value creation. But boundaries are also the places of enmity, territorial conflicts, and fights about value capture.

Assessing the appropriate degree of openness in various external relationship contexts is one of the most daunting challenges of ecosystem leadership. What IP should be shared, what needs to be protected? Who “owns” the product if it was developed in a co-creation process? Too much openness threatens the identity, security, and/or profitability of the individual players, too little openness inhibits the realization of synergies and the harvesting of the ecosystem’s potential.

There is no silver bullet that solves these inherent conflicts. Instead of avoiding the issue, ecosystem leadership means to embrace the conundrum, recognize its relevance, and design boundary-spanning spaces in a way that creates trust and enables a joint learning process.

### Boundary Management – Critical Capabilities

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- Design cross-organizational processes as joint learning opportunity
  - Leverage productive friction resulting from the diversity of stakeholders
- 

### Relationship Dimension #3 Resourcefulness

Resourcefulness is the ability to identify and leverage resources – within and beyond the boundary of one’s

organization. Such resources can be talent, market access, financing sources, technology, data, manufacturing capacity, and other assets and capabilities that contribute to the value creation of the ecosystem.

The degree and quality of access to these resources depends on the relationship dynamics among the various partners, their ecosystem engagement commitment, individual policies, cultures, trust, and more. This means that resourcefulness requires not only knowledge about which resources are available from which member and where to find them; it is equally important to develop the relationship and trust to get access and approval to use them.

Boundary-spanning communities of practice or other forms of shared platforms are a great way to jointly work on developing resourcefulness. They provide a social framework to get to know ecosystem partners, influence their level of excellence, improve collaboration, build trust, and strengthen relationships.

### Resourcefulness – Critical Capabilities

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- Identify and leverage resources beyond the boundary of one’s organization
  - Have privileged access to key decision makers and top talent within the ecosystem
-

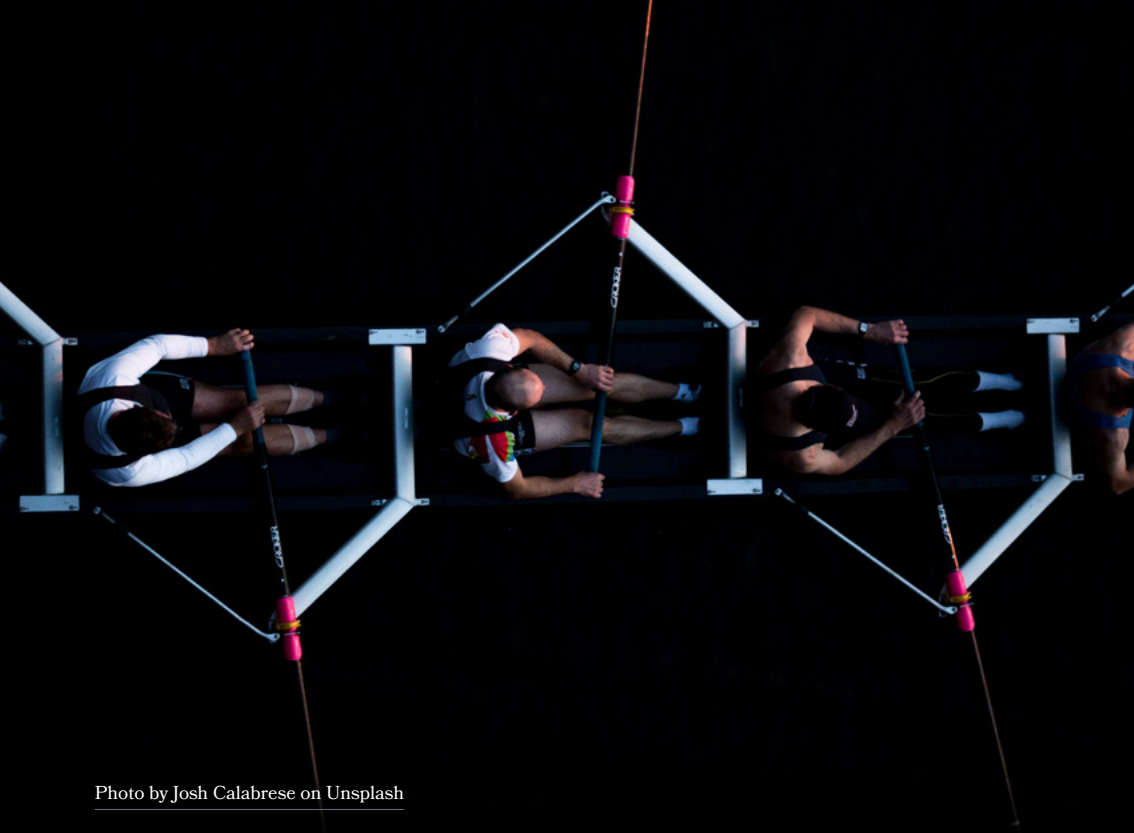


Photo by Josh Calabrese on Unsplash

## Organizational Dimension #1 Operational Excellence

Within the boundaries of a single corporation, decisions about structures, mechanisms, and policies that assure operational excellence can be enforced through legally codified and widely accepted mechanisms of corporate governance. Not so in ecosystems, where such a “constitution” is missing – at least at the outset.

Here, the interdependent nature of relationships between semi-autonomous players leads to complex and dynamic contractual frameworks which are more fluid than traditional organizational bylaws. The operations of an ecosystem require not only dedicated ecosystem roles and responsibilities but also policies, processes, and mechanisms that connect ecosystem rules with the operating systems of each participant.

At the same time, companies can optimize their participation by assuring excellence in what they contribute to the ecosystem – both in terms of value creation and organizational alignment. The latter requires *internal* roles and responsibilities dedicated to ecosystem leadership that must have a prominent voice in driving the structural and cultural agility needed for engaging in co-creation and cross-boundary collaboration.

### Operational Excellence – Critical Capabilities

- Co-shape the ecosystem architecture that optimizes its operational performance
- Align internal organization with external collaboration requirements

## Organizational Dimension #2

### Digital Maturity

Digital technologies such as cloud computing, collaboration technologies, blockchain, AI, IoT, data analytics, and more spawn not only new product/service offerings and business models; they also enable ecosystem architectures and are essential for the needs of ecosystem operations as they support open innovation, cross-boundary collaboration, efficient sharing of resources, data exchange, and more.

This dual role of digital technology as a transformational force and a system enabler makes digital maturity an indispensable capability for successful business ecosystem engagement. A lack of digital sophistication in an ecosystem organization not only jeopardizes an ecosystem's smooth working, it also keeps them from realizing the full benefits of their ecosystem membership and makes them less attractive partners. On the other hand, contributing digital solutions that foster ecosystem performance is a safe way to become an influential player.

In this context, it is important to distinguish two equally important dimensions of digital maturity. The “hard” dimension relates to the level, functionality, and architecture of technical resources such as infrastructure, networks, software, cybersecurity solutions, and more. The “soft” dimension relates to digital literacy and

creativity- i.e., knowing how digital technology works and how it can be used for operational improvements, strategic market intelligence, or product and business model innovation.

### Digital Maturity – Critical Capabilities

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- Assure a technological infrastructure that allows/ enhances effective ecosystem collaboration
  - Foster digital literacy across all functions and levels of the organization
- 

## Organizational Dimension #3

### Dual Governance

Effective collaboration within an ecosystem requires from its participants agility, speedy decision-making, and accountability. To achieve this, they need an *enabling* internal governance that assures the necessary degree of freedom, anchored in a framework of shared values, strategic agreement, and clear purpose to counter the centrifugal forces created by the semi-autonomy of the periphery.

At the same time, the ecosystem itself needs a governance framework to cover a wide-ranging set of potentially explosive issues such as how to share jointly created economic value, how to accept new members, how to launch new projects, how to change rules as

the system develops, and more. The lack of a formal leadership structure where no one has any formal legal authority over others requires excellence in horizontal negotiating and influencing via “soft power.”

Contrary to formal organizations, ecosystems cannot draw on a pre-existing constitutional framework to guide the parties. Effective ecosystem leadership means to promote the development of interorganizational bodies and the creation of ecosystem bylaws. It also means to take on an active role by appointing dedicated delegates to jointly work on system-wide agreements and to mitigate conflicts as they emerge.

### Dual Governance – Critical Capabilities

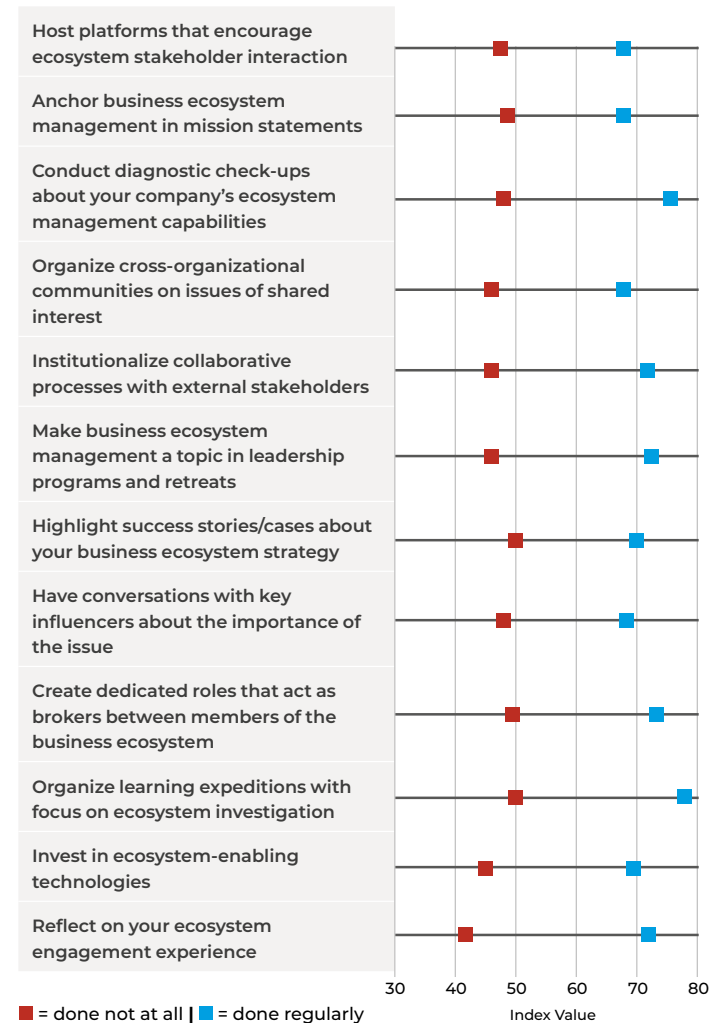
- Align internal governance with external governance requirements
- Exert influence in ecosystem without formal power (diplomacy, “soft power”)

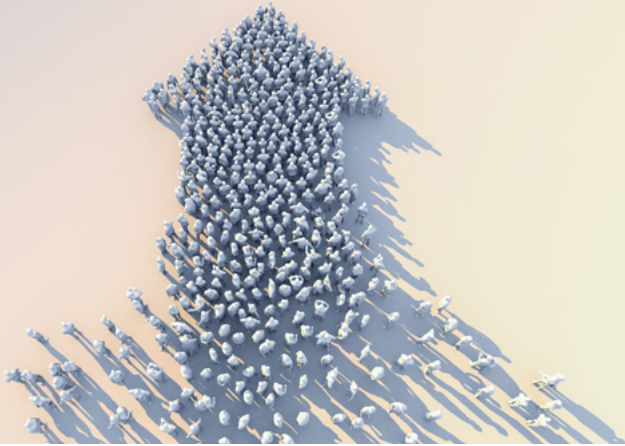
### A Glimpse from the ELX Index

To validate our framework, we developed an Ecosystem Leadership Index (ELX) that allows organizations to measure and assess their current capability level along the nine dimensions, along a scale from 0 to 100 points.

We tested the ELX Index via a global survey that included 167 companies from around the globe. While DLQ is not the

Exhibit: The Impact of Enabling Activities on the ELX Index





place to report detailed results<sup>3</sup>, it is worth sharing two particular highlights that demonstrate the importance of focusing management attention on ecosystem leadership:

- Companies who have a dedicated unit that focuses on business ecosystem management score in every Index dimension 10-15 points higher, compared to those without a clear ownership for the topic.
- The twelve activities we suggested to support the development of ecosystem leadership capabilities have significant impact. Companies that regularly engage in them score up to 32 points higher than those who don't. Exhibit 2 lists these measures and their contribution to capability improvement.

3 To learn more about the concept behind the ELX Index and the results from the global survey contact the Center for the Future of Organization at [office@futurorg.org](mailto:office@futurorg.org)

## Conclusion

Considering the increasing importance of ecosystem-based business models, business ecosystem leadership capabilities are not only becoming a major source of competitive advantage; they will also become indispensable for the long-term survival of organizations.

Developing and sustaining these capabilities is an ongoing challenge that requires serious top management attention. It requires the well-known traits of transformational leadership and organization: strategic, structural, and cultural acumen; the institutionalization of a change architecture that is designed to address critical issues; and change leaders who commit to engage and take responsibility to move an organization towards a mature and competent ecosystem player.

The role of the guardian and driver of this process that enables the framework's nine capabilities must be emphatically cross-functional. The nature of the challenge requires a solid mix of mindsets and skills, which integrates an understanding of strategy, organizational development and design, IT, HR, customer-centricity, and, most importantly, the political acumen and diplomacy needed for dealing with friction and driving change.

It requires 21<sup>st</sup> century leaders.

*Roland Deiser is a Senior Drucker Fellow and Founding Chairman of the Center for the Future of Organization at the Drucker School of Management ([www.futureorg.org](http://www.futureorg.org)). He is also Co-publisher and a Senior Editor of *Developing Leaders Quarterly*.*

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