By
Arnoud De Meyer

Ecosystem Edge: What can business schools learn from businesses?

Over the last decade, there has been a renewed and growing interest in deploying loosely coupled networks of companies and individuals as an alternative to integrated supply chains or tight alliances. This form of organisation seems particularly well-adapted to situations where companies are confronted with a high degree of uncertainty and the need to innovate. These networks have been described as ecosystems because they are analogous with natural ecosystems or communities of living organisms in conjunction with the non-living components of their environment, interacting as a system.

In 1993, J.H. Moore defined a business ecosystem as 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. Three elements in his definition are critical. First, there is a conviction that there is an opportunity to create new value for potential customers and that no single company can unlock the value opportunity acting alone. Second, it is about creating networks without too many constraints. And third, the partners in the network may still act independently but they co-align their actions and investments.

Ecosystems have many advantages. They enable faster joint learning as they bring together partners with different capabilities who together can create new 'ecosystem goods', or knowledge that is exclusive to the ecosystem but which is shared by most or all partners. It is also a flexible means of organisation as some partners can be left to go, and others may join, thus enabling partners to adjust their activities quickly to changing circumstances. This seems particularly appropriate in times of disruption where the environment is changing rapidly, where business models need to be adjusted and scaled up quickly.

Ecosystems are not a totally new form of organisation. The old commons that one finds in any English town, the networks of wool producers in medieval Northern Italy or the management of water in the Javanese rice terraces are historic examples of such ecosystems. But as Gartner, the global ICT consulting firm, argued in 2018, the cutting edge use of technology has moved from having a focus on creating new services and using platforms to deliver them, to a focus on playing a part in the ecosystem, exerting influence but not control. This renewed interest is made possible through the deployment of technology, but is also about the new opportunities it opens for business. In our book, *Ecosystem Edge – Sustaining Competitiveness in the Face of Disruption*, Peter Williamson and I described how the rapid development and scaling up of the Chinese e-commerce giant Alibaba and its financial subsidiary Ant Financials, the dominant market share of Amazon Web Services (AWS) in cloud services, or the quasi-monopolistic position of Cambridge's ARM in the design of RISC processors are, to a large extent, the consequence of these companies' strong commitment to developing as an ecosystem. Other examples include Apple, which created an ecosystem of suppliers and App developers to scale up its entry in the smartphone market, or the Chinese white goods producer Haier, which outplaced many of its middle managers and encouraged them to set up their own small micro-enterprises. The latter transformed itself from a manufacturer into an incubator ecosystem with close to 5000 partners.

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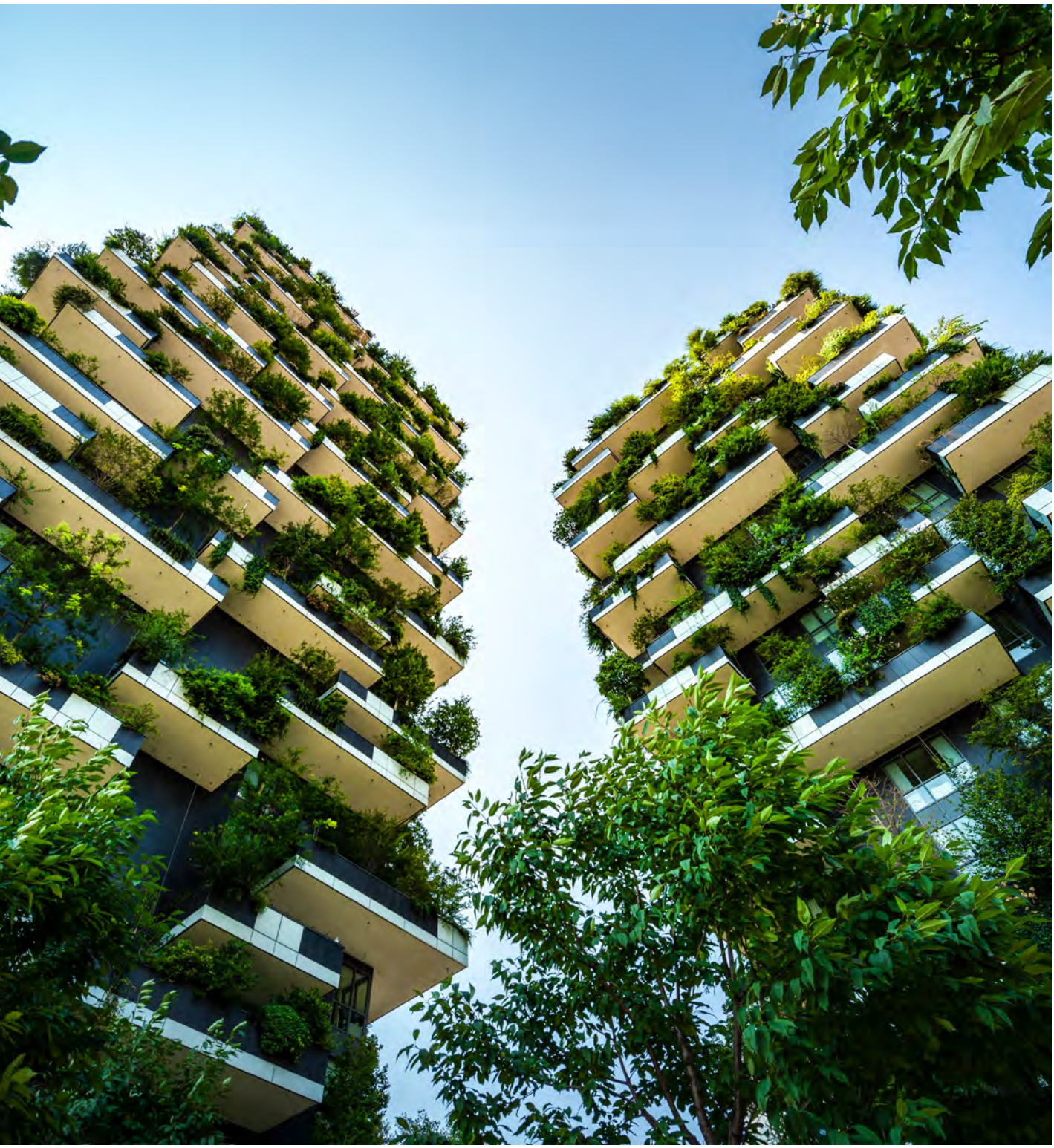

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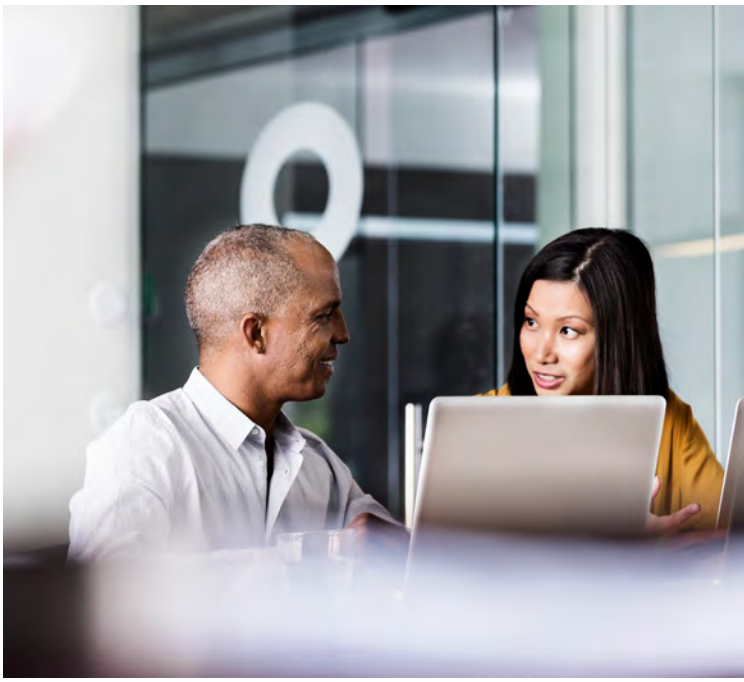
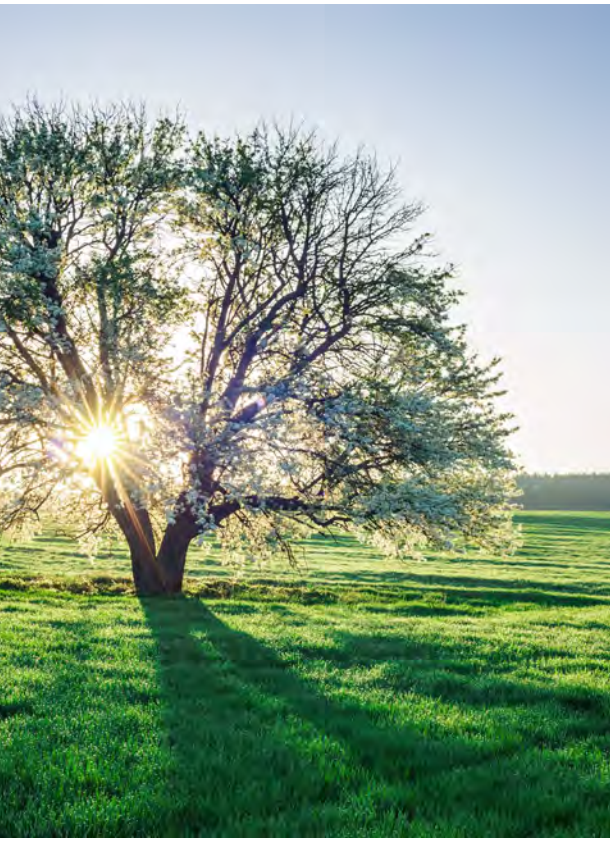


Does this have relevance for business schools? Yes, and this is for three reasons. First, after thirty years when the traditional model of a business school prevailed and boomed, we may be in for some serious disruption. The rapid acceleration of educational technology may disrupt our delivery and business models, the proliferation of specialised master degrees may well undercut the traditional MBA programmes, micro-credentialing may reduce the value of a university degree, and new private competitors may be much more productive in delivering education.

Second, and as I argued already ten years ago, I believe that we need to evolve from being business schools into schools for business. What do I mean by that? Business schools used to limit themselves mainly to teaching traditional business subjects such as finance, marketing, operations, accountancy and strategy. Companies indeed needed graduates with deep knowledge in these disciplines, and they wanted sophisticated updates on these topics for their executives. But more recently, companies have often come with different types of questions to business schools, such as: how will digitalisation change business models and work practices? How do we cope with sustainability and stewardship challenges? How do we promote and manage diversity? And, what is the role of an enterprise in society? To answer such questions we need input from other disciplines such as technology, mathematics, psychology, philosophy, etc. This is different from the classical liberal education where students are taught a broad range of subjects. Business schools need to call on these other disciplines to help them formulate answers to precise questions. Thus, there is a new role for business schools, i.e. as the orchestrator of and the intermediary for the providers of knowledge that comes from a wide variety of sources. This is what I referred to as a 'school for business', i.e., an institution that can help companies find solutions for a wide range of challenges.

Third, existing business schools will be confronted with new competition and the pressure on financial models that comes with it. We are already seeing Asian business schools rise fast in the rankings. And business schools in Australia or the United Kingdom, which counted on a steady and large supply of applicants from China, may soon discover that this source of revenue may gradually but surely dry up.

When these three trends accelerate, business schools will be confronted with a much higher level of uncertainty and will have to accelerate their innovation. Like any other organisation, business schools operate in ecosystems. Leveraging some of these ecosystems may help them in innovating and scaling up more rapidly. In our aforementioned book, we describe how companies have done this successfully. Below, I will highlight four lessons that can be applied to business schools.



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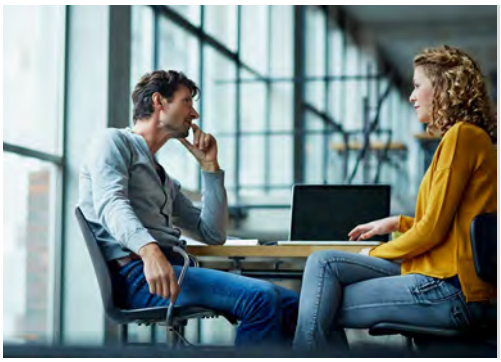
All of us work in ecosystems, but we may not always be conscious of this. Most, if not all business schools, have partnerships with other business schools for research or student exchange. We work with companies on applied research or executive education. We have contacts with other schools in our universities. But have we carefully thought about how to leverage these contacts to drive innovation in, for example, internationalisation or technology deployment? If we want to activate and take leadership in such an ecosystem, we must first develop a clear roadmap for the ecosystem partners. Once this roadmap exists it will enable partners to align their capability development and investments. We also need to analyse which partners can bring the most relevant capabilities, make it attractive to them to join and ensure that the entry barriers for joining the ecosystem are as low as possible.

Working with partners is not easy: we operate in different cultures, use different jargons, have distinctive organisation structures, etc. It is of utmost importance in an ecosystem to reduce the transaction costs and enhance the efficiency of collaboration. Company practice can inform us that this does not require us to write lengthy and detailed contracts, but that it is about 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. It also requires 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. And it is essential to work hard on building trust and be clear about the governance systems in the ecosystem. In fact, we need to build an agile and resilient network of partners, not a bureaucratic organisation with high transaction costs.



Obviously, partners will sign up for a long-term collaboration in an ecosystem when they can see a significant positive return. As an ecosystem leader, you must therefore ensure that all partners can capture some of the additional value created by the ecosystem. Of course, the larger the value that is created by the ecosystem, the easier it becomes to share that value in a fair way among the partners. But we also observed that successful ecosystem builders pay a lot of attention to creating some element of activity in the ecosystem that they can own and control, and that the ecosystem's ability to create value for customers depends on this. We compared this to having a keystone, i.e., the central stone or other piece at the apex of an arch or vault, that keeps the arch together. Such a keystone does not have to be big. But it should be something that is essential to keeping the ecosystem together, and that all partners in the ecosystem will rely on. In the case of Haier, it is the platform on which all the micro-enterprises work. In the case of Alibaba, we found that it is the control over the data. The management of Alibaba has stated several times that they are willing to let go many of the activities they currently perform on their platform, and hand these over to partners. But the control over the data of suppliers, customers or service providers helps them to build up profiles that enable more targeted marketing information, and deep insight, for example, into credit worthiness. It also enables them to create 'tollgates' where they can charge for the use of such data in transactions. Having such a keystone enables you to get value out of the ecosystem.

A fourth lesson from the business world is that managing an ecosystem requires a different mindset and skills for the person who leads the ecosystem. As you need to manage people who are outside your organisation you must develop the capacity to listen to the weak signals that may come from your partners, have the ability to nudge them in the right directions, deploy soft power that comes from vision, credibility and respect and evidence to bolster your case with partners, and generally speaking practice a form of collaborative leadership.

Good luck in building your ecosystems to innovate. And learn from your partners!

About the author

Arnoud De Meyer is University Professor at Singapore Management University (SMU). Previously, he was the founding dean of the Asia Campus of INSEAD, the Director of Cambridge Judge Business School and President of SMU. He is a director of several listed companies and non-profit organisations. He is currently also the Chair of the EQUIS Accreditation Board. His most recent book, co-authored with P. J. Williamson, on 'Ecosystem Edge: Sustaining Competitiveness in the face of Disruption' *was published by Stanford University Press.*