

Governing Ecosystems:

To Be Effective in an Increasingly Ecosystems World, It's Vital to Understand the Different Types of Ecosystems and How They're Governed and Managed

By Ard-Pieter de Man, CSAP, PhD



Editor's Note: In his recent book *How to Survive the Organizational Revolution: A Guide to Agile Contemporary Operating Models, Platforms and Ecosystems*, Ard-Pieter de Man discusses new organizational forms and their pros and cons. Ecosystems play an important role in the book, and based on de Man's research, this article discusses different types of ecosystems and shows that each type has different features and governance requirements.

What's It All About?

What's in a name?

The world of ecosystems is full of confusing terms. “Ecosystem” itself is a prime example. So is the fashionable term “orchestration.” The combination of “ecosystem orchestration” is even more intriguing. It all sounds great, but does it mean anything?

Below I discuss various approaches to ecosystems I have seen in practice and I show that each approach requires different governance processes. Without clarity about what type of ecosystem you're talking about, you will not be able to manage it effectively.

Let's first take a look at three common ways in which the ASAP community typically uses the term “ecosystem”:

- **Business ecosystem.** A business ecosystem involves all external relations of an organization. It is broader than an alliance portfolio because it also includes suppliers, stakeholders, relevant governments, and the like. I exclude here those companies that have simply relabeled their existing alliances or partner program as their “ecosystem.” That is old wine in new bottles.
- **Value proposition ecosystem**, sometimes also called an “innovation ecosystem.” This is a multipartner alliance that delivers one specific value proposition to a client, vertical, or segment.¹ This may not seem new, because multipartner alliances have been around for a while. However, value proposition ecosystems are used for rapid experimentation with new solutions and therefore tend to follow agile partnering processes, instead of the lengthy alliance life cycle.² That is a fundamental departure from traditional alliances.
- **Platform ecosystems.** A third type of ecosystem arises around online platforms.³ Partners, app builders, and clients use the same platform to engage in transactions. Application program interfaces (APIs) help partners to build their offerings on top of the platform. Such platforms are spreading rapidly. Next to online players like Facebook and Google, industrial companies like GE, Philips, John Deere, and Haier have set up their own platforms.

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All these types of ecosystems have one thing in common: they all start from the idea that a healthy ecosystem helps you as a company to remain healthy. Healthy ecosystem partners not only bring business your way, but also help you to continue to improve and innovate. A further common characteristic is the presence of multilateral relations rather than only bilateral ones. Ecosystem health depends heavily on interaction between your partners, not just on interaction between you and your partner.

Governance

How should each of these ecosystems be governed? Ecosystem governance requires attention to three elements:

- **Orchestration** refers to a company trying to get partners to collaborate and move in a desired direction. Since the scope for hierarchical governance is limited, this process is interactive and evolutionary. The ecosystem may have as much to say about where to go as you do.
- **Co-creation** refers to the act of innovating together with partners. This may also entail connecting partners to each other to create new solutions for clients.
- **Curation** is the act of removing undesired or underperforming partners from the ecosystem. Even though many ecosystems are open, this does not mean everybody is welcome to join.

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The way orchestration, co-creation, and curation are implemented differs widely across the three types of ecosystems. Table 1 shows these differences.

Table 1: Governance in Different Ecosystems

| | Business ecosystem | Value proposition ecosystem | Platform ecosystem |
|--------------------|--|--|---|
| Orchestrate | Align bilateral relationships with own objectives | Align with a single joint value proposition | Set incentives and conditions to join the platform via APIs |
| Co-create | Bilateral or setting up value proposition ecosystems | Continuous improvement by multiple partners simultaneously | Continuous search to jointly develop with partners and connect partners |
| Curate | Ending bilateral relationships, if possible | Rules to replace partners Client determines value of contribution | Via APIs and monitoring apps |

In business ecosystems, orchestration mainly takes place in bilateral relationships. If a core organization has dozens of partners and stakeholders, the core organization will usually not be able to align all these partners around one common direction. Instead, it will influence bilateral relationships to align as much as possible with its own strategic objective. Co-creation in business ecosystems can be done in bilateral relationships. Another development is that companies increasingly look in their business ecosystem for partners to bring a new solution to the market. In that case, they use the business ecosystem to create a value proposition ecosystem. Curation requires ending the relationship with a partner. This may not always be possible. Some stakeholders, suppliers, or clients may not act the way you like, but may be hard to abandon. Examples might be a supplier with a unique competence or a governmental agency that needs to approve your product. In that case, lobbying and other influencing tactics are necessary to come to a working relationship. Involving other partners in the business ecosystem to help such a stakeholder change its mind can work very well.

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Things are quite different for value proposition ecosystems. In this case all partners align around a single joint value proposition that they deliver jointly to the client. This value proposition will need to improve continuously, and therefore all partners engage in co-creation simultaneously, all the time. Curation in this type of ecosystem has its challenges. If one partner underperforms and is asked to leave the ecosystem, the ecosystem may no longer be able to deliver on its value proposition. Hence rules to replace partners need to be put in place up front. Another option is to let the market do its work: if clients think one of the partners does not contribute value, that is a sign for a partner to exit. Adapting the financial rules such that that partner earns less is another option.

Platform ecosystems use other methods for orchestration. The most striking contrast with the other two types of ecosystems is the level of automation of the collaboration. In this case, many of the ecosystem partners are app developers, and coordination with them can be organized via APIs. The platform owner sets conditions for entry to the ecosystem and makes entry attractive by providing app developers with programming tools and revenue-sharing programs. Because no human intervention is required, this enables the platform to scale its network fast. With highly successful apps, the platform owner may engage in co-creation to develop even better functionality for the platform user.

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Another way to improve co-creation is to encourage app developers to collaborate. One example I came across was a utility organization that found there was interest in apps that enable consumers to check the safety of their home and to regulate the temperature in their living spaces. On their platform there were separate apps for that. By stimulating these apps to merge into one, consumers could monitor anything in their home with only one app instead of two. Downloads went through the roof.

Finally, curation can be a challenge. Depending on how open the platform is, anyone can develop an app on a platform. Some of these apps may be of low quality or morally

undesirable. Those can be removed from the platform by restricting certain APIs, monitoring whether apps meet community guidelines, or indicating to users that an app does not meet the latest technological requirements.

Note that these three ecosystems do not operate in isolation: organizations can be a member of each of the three ecosystem types at the same time. The example of the utility shows how in a platform ecosystem, a value proposition ecosystem emerged when the utility company started to collaborate with the two app builders to satisfy a customer need. That same utility also had relationships with suppliers, competitors, and governmental institutions. Altogether those constitute its business ecosystem.

No One Size Fits All

As companies are part of several types of ecosystems at one point in time, they need to be clear about which ecosystem game they are playing with which partner. What table 1 shows is that methods, tools, and processes that are useful in business ecosystems may be counterproductive in other ecosystem types and vice versa. In an earlier article in *Strategic Alliance Quarterly* I showed that management of the three different types of ecosystems requires different skills from those of the traditional alliance manager.⁴ Companies should therefore not simply try to “copy and paste” their existing alliance management techniques into an ecosystem world.

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One example is the increasing criticism of partner tiering structures. I am not convinced that these have become entirely useless, because companies may still want to have a proactive way to go to market. However, the three types of ecosystems show that their value is more limited in an ecosystem world than in an alliance world. In ecosystems, the opportunities for innovative value propositions are bountiful yet unpredictable. New value propositions may not always fit with existing ideas about partner compensation that are embedded in tiering structures. Similarly, sales may be generated by a partner that ranks low in the tiering structure or is not even part of the tiering structure. And where does a value proposition ecosystem fit that contains partners from different tiers? So tiering structures are not sufficient anymore in the go-to-market strategy and may even be counterproductive in developing

out-of-the-ordinary value propositions. The increasing variety of partners and value propositions makes it difficult to fit them neatly into a limited number of tiers.

With ecosystems surpassing alliances in importance, we need to give more attention to the management of platform ecosystems in particular and to fundamentally rethink our ways of working.

The rise of ecosystems also has implications for ASAP as an association. With ecosystems surpassing alliances in importance, it may be wise to cast ASAP’s net more widely. In particular, giving more attention to the management of platform ecosystems would help the ASAP community to remain relevant in the coming years. The keynote speeches during the ASAP Global Alliance Summit this year by **Steve Steinhilber** of Equinix and **Tiffani Bova** of Salesforce have already pointed us in that direction.

Ecosystem thinking is developing rapidly. A thorough understanding of different ecosystem types and their governance is necessary to be effective in the specific ecosystem game you play. Ecosystems are not just “alliances plus,” but new and innovative structures that require us as alliance professionals to fundamentally rethink our ways of working.

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¹Adner, R. (2017). Ecosystem as structure: An actionable construct for strategy. *Journal of Management*, 43(1), 39–58.

²Furr, N., O’Keeffe, K., and Dyer, J. H. (2016). Managing multiparty innovation. *Harvard Business Review*, 94(11), 76–83. Twombly, J. (2018). Partnering at the speed of business. Presentation at the 2018 ASAP European Alliance Summit, Amsterdam, November 8–9.

³Parker, G. G., Van Alstyne, M. W., and Choudary, S. P. (2016). *Platform Revolution*. W. W. Norton & Company.

⁴De Man, A. P. (2018). What does an ecosystem manager do? *Strategic Alliance Quarterly*, Q4, 35–40.