



IS IT THE END OF STRATEGY IN BUSINESS ECOSYSTEMS?

Chinese companies like Alibaba and Pingan give us the answer

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There has finally been a consensus amongst strategy scholars that a new era demands a new way of organizing business: that is the business ecosystem.

A business ecosystem is the network of organizations—including suppliers, distributors, customers, competitors, and government agencies, and so on—involved in the delivery of a specific product or service through both competition and cooperation. The idea is that each entity in the ecosystem affects and is affected by the others, creating a constantly evolving relationship in which each entity must be flexible and adaptable in order to survive as in a biological ecosystem.

How did we get here?

At the end of the 70s Tom Peters announced that we should move beyond the matrix organization to match accelerating business environments. More recently, James Moore discussed the death of competition by emerging ecosystems. Gary Hamel declared we should bust bureaucracy for more agile ways of organizing. Michael Jacobides showed why business ecosystems would make industry analysis obsolete.

Ecosystems are quickly emerging as a way for businesses to organize themselves. Rather than following strict strategic guidelines and deliberate design, these business ecosystems are managed by principles and routines. They are never-ending reorganizations of business. Business ecosystems have clear advantages of speed, market responsiveness, and show resilience in turbulent times.

What are the consequences of these emerging organizations for strategy?

A business ecosystem is an innovative way of organizing and is not only found in pioneering Silicon Valley giants. In fact, we find the best examples of business ecosystems at the other side of the world: China. It is the rapidly emerging Chinese business ecosystems that stand out the most.

Think about how Alibaba's business ecosystem is effectively managing over 2 million merchants across hundreds of businesses and dozens of 'industries'. Alibaba has managed to build a mechanism that creates interdependencies between most of the businesses. Its business ecosystem has become a data driven, well-oiled machine of transactions and information; a 'smart business' as Zeng Ming, chief strategy officer of Alibaba Group, said.

When you think of this rapidly evolving business ecosystem it begs the question: Is there actually a strategy behind all of this?

One of the answers from recent management thinking is that business ecosystems are not directed but, rather, orchestrated. This of course makes a lot of sense because it would just not be possible for one management team sitting at the core of an ecosystem of hundreds of companies to know and understand what is going on

across all these businesses. But, how does strategy inform that style of orchestration and how can we make sure the strategy is executed? Having a common culture and a set of decision making principles will go a long way. But, when we look at the Chinese business ecosystems we might find another answer.

Strategy from the bottom up

There are two levels of strategizing going on. First, we see that in business ecosystems there is limited vertical integration and merging of external businesses and invested ventures. In fact, it has become clear that it has been a deliberate choice of many of the Chinese business ecosystems to leave the businesses running autonomously and independently. After all, ecommerce is rather different from digital healthcare, fintech or operating shopping malls. Strategy is deliberate but bottom up.

Second, we see that the center of gravity of a business ecosystem plays an important role in setting the direction of where the ecosystem wants to play. In particular, the industries in which an ecosystem operates are by and large determined by the mechanisms that guarantee business interdependencies inside the system.

For example, in the case of Alibaba new growth opportunities can only be found if the opportunity can connect to an Alipay and AliCloud or any of the other shared services that are the glue of Alibaba's universe. So, a business ecosystem balances the deliberate strategy making of the autonomous businesses inside the system and at the same time the emergent strategizing of the ecosystem as a whole.

Rather than proclaiming the end of strategy as we know it in a time of business ecosystems, we need to look closer at the mechanisms by which strategy is executed – both deliberate and emergent strategy. There's no doubt that business ecosystems will pose a challenge to executive decision makers: strategy is going to move away from the executive team to the business ecosystem. But it's not dead yet.

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