Center and Periphery

■ History teaches us that the center does not always remain the uncontested center.

■ Outsiders on the periphery often traverse the distance to the center and conquer it. By contrast, it is much harder—but not impossible—for the center to make its way to the periphery.

■ Those who occupy the center usually recognize their vulnerability only when it is too late.

■ Every business competes in a dialectical space between the center and the periphery.

It's October 31, 1517. How did 41-year-old Pope Leo X spend the day? We don't know, but we might speculate. He was more a textbook Medici than a textbook pope: troop commander, developer of Saint Peter's Basilica, a man who enjoyed the pleasures of life, the arts, and hunting. It is conceivable that Leo X was busy on this day with financial matters. Because of his rampant appetite for money to pay for the reconstruction of Saint Peter's, he managed to turn the trade in indulgences in Germany into a flourishing cash machine for Rome.

Also on October 31, 1517, a professor of theology in Wittenberg wrote a letter to his superiors, enclosing the 95 Theses and criticizing the trade in indulgences. According to tradition, Martin Luther nailed his Theses to a church door, never imagining that he would usher in one of the gravest schisms in the history of the church.

On that autumn day, there was no doubt that the center of Christianity was Rome. If a Roman contemporary had called Wittenberg the periphery, he would have been laughed out of the room: Wittenberg was off the map. The world was full of sectarian monks and itinerant preachers. Why should Rome worry? The power of the curia seemed secure.

But history teaches us that the center does not remain the center. Outsiders on the periphery are happy to traverse the distance to the center and conquer it. They have nothing to lose and everything to gain. By contrast, it is much harder for the center to gather in the periphery. Those who occupy the center—Leo X in 1517, the U.S. and European automotive industries before the Japanese assaults in the 1970s, and the music industry before the advent of the iPod in 2001—usually recognize their vulnerability only when it is too late. What they must realize is that center and periphery are not theoretical concepts. They are true sources of strategic action.

Untapped Opportunities Exist at the Periphery

Although established players at the center command their markets, industries are often shaken up by paradigmatic

changes from the periphery, such as personal computers, low-cost flights, the Linux operating system, digital cameras, Internet search engines, Dell's logistics business model, and the iPod. Market leaders ignored all these disruptive innovations, even as the innovations began to enjoy resounding success.

In each case, an outsider far from the center came up with something new, created a market, and then, over the course of years, marched on and ultimately conquered the reigning center. At first, the interlopers did not represent a threat, but they became steadily more menacing and finally bridged the distance to the center and toppled it. Business examples of such slow and steady shifts are legion. Southwest Airlines introduced low-cost flights in the United States in 1971; the business model was not copied in Europe until 1985, with the creation of Ryanair. And in 2002, British Airways sold its low-cost airline Go—a creation of the center—to easyJet, a contestant on the periphery since 1995.

Strategy requires regular visits to the periphery in order to explore and learn. The periphery is the realm of opportunities that an organization has not yet discovered. It is a vast greenfield in which modest and prudent investments can produce huge payoffs for the center. Structurally, those investments can take a variety of forms—the purchase of promising new start-ups, the funding of skunkworks completely separated from the center, the establishment of competing development teams, the hiring of experts from the periphery. The key for organizations at both the center and the periphery is to calculate the costs of bridging the distance between the two poles.

The Center's Strength Is Also Its Weakness

All that said, it would be a mistake to see the center as only negative and the periphery as only positive. The center is an essential element of social interaction. There are no strong cultures without an organizing middle. Human beings are social creatures. They develop and progress by means of collective actions—in other words, in proximity to other human beings. Centers establish order and organize coexistence, whether it be spiritual, religious, social, political, or cultural. Centers are the sites of thought and planning, where great initiatives are launched and innumerable innovations born. They reflect shared values. Since the center represents power, it attracts people who want to fit into

it, such as Bramante and Michelangelo, but also those who contest it, such as Martin Luther.

However, the strength of the center and its prevailing business model can also turn into its weakness. Bill Gates once claimed that Microsoft's most dangerous competitors were not IBM or Linux but rather its enormous installed base of Windows users. In other words, Microsoft's future depends on what its own customers will do. That is also the case in the telecommunications industry. VoIP telephony has never been the favored route of the incumbents—neither classical operators nor traditional equipment producers. VoIP is coming from the periphery. What happens when it becomes mainstream, starting with fixed lines and emerging into mobile?

Although we tend to get excited by glorious stories of mavericks coming from the periphery and conquering the center, many centers have dealt successfully with their peripheries. Consider a few examples. IBM caught up with the disruptive innovation of the personal computer despite a faltering start. Years later, recognizing its strong service platform, IBM transformed itself into a global professional-services provider. NTT managed to create a business ecosystem for its mobile business (DoCoMo) that it could control to a large extent, while simultaneously providing independent service offerings. GE Medical Systems and Siemens Medical Solutions embraced biotechnology and diagnostics early on through aggressive acquisitions. News Corporation entered the social-networking media business through its acquisition of MySpace.com. Hoffmann-La Roche bought into biosciences with its pioneering acquisition of Genentech.

Such companies neutralized their peripheral attackers using a number of different strategies. Organizationally speaking, they kept the attacker intact and separate—by reinventing the basic peripheral idea or by buying the entire company—while at the same time pulling the periphery into the center. They turned their focus beyond their existing business model in order to notice fundamental shifts beyond their borders.

Polycentric Systems Can Be a Source of Competitive Advantage

The world cannot always be clearly divided into center and periphery. Long phases of rich polycentrism have

existed throughout history: Gaul at the time of Caesar, Maya civilization, the cities of the Italian Renaissance. Polycentric systems are highly creative, but when they are no longer supported by common values, they become vulnerable.

Business presents many examples of polycentric systems. One is the research networks of global companies. For instance, the R&D networks of General Electric and Siemens operate on all continents in order to employ the best engineering talent and capture ideas from all parts of the globe. Another example is strong supplier networks governed by common values. A fast production speedup in the double-digit range is possible only when the supplier system is intensively aligned—a lesson that the most advanced automotive manufacturers discovered early on.

Strategy Entails Successfully Managing the Tension Between Center and Periphery

Strategy is a continuous movement between new centers and new peripheral businesses. As the history of great innovators such as Apple, Google, and Microsoft demonstrates, a business might begin at the periphery and, as it increasingly enjoys success, end up at the center. Then, once it occupies the center, it will soon face new competitors at its periphery.

Social entities located in the "border space" of a company—the sales organization, the service organization, distributors, customers, joint ventures, experimental units—should be charged with catching important signals from the periphery. To that end, they—and the organization as a whole—can consider the following questions:

- Are there anomalies to the existing business model "out there" that are worth investigating—consumers who refuse to buy our products, competitors who seem not to care about profits, technologies that do not belong to our business? Are such anomalies first indicators of alternative business models?

- Who could have an interest in pursuing potentially disruptive innovations? Which companies currently occupy the periphery? Which companies occupy the center? Could these players change positions in the future?

- Can we simultaneously occupy the center and be on the periphery? What could the periphery do to overcome the distance that separates its insights from the strong beliefs of the center? What could the center learn from its periphery?

- Do the center and the periphery use their respective advantages to innovate—the periphery by deploying its own resources, stronger independence, and wider freedom, and the center by relying on its strong culture, economic clout, and powers of organization?

- Do we think not just monocentrically when considering the relationship between center and periphery but also polycentrically, in order to profit from the diversity of countries, organizations, and cultures that make up today's global economy?

Companies that keep asking these questions will find their way both in the center and on the periphery—and thus ensure their place not only in today's market but in future ones as well.

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