The Illusion of INVINCIBILITY

ANDREAS KREBS / PAUL WILLIAMS

The Illusion of INVINCIBILITY

The Rise and Fall of Organizations—Inspired by the Incas of Peru

Forewords by Nik Gowing and Dr. Peter May

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The Illusion of Invincibility: The Rise and Fall of Organizations – Inspired by the Incas of Peru

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Foreword by Nik Gowing

Founder and director of "Thinking the Unthinkable" and main presenter, BBC World News 1996–2014.

Business and leadership have always faced immense vulnerabilities. Enterprises begin with great energy and innovative ideas that develop through the start-up period and seed funding. Commitment and determination are vital to ensuring early success. A strong sense of self-belief and invincibility fuels a conviction that failure is not even possible.

Then comes the scaling up, and hopefully the sustaining of success. Failing to be nimble and agile, with a constant anxiety about what is being missed, has always triggered a cost. Often that price can ultimately turn out to be existential, both for brands and professional reputations.

At the start of this third decade of the twenty-first century, those pressures and that reality are sharper than ever. Business and politics are wrestling with the scale of a new disruption. It is getting deeper and wider. The timelines are shorter. Public intolerance and impatience are sharper than ever. Customers and voters alike—especially the NEXTGEN—push back against anything or anyone they don't like.

We assume the current disruptions and challenges to all are not a blip. The often-brutal realities and lessons of history should warn us to expect this challenge to what almost everyone assumes is an automatic continuation of seventy years of stability and normality since World War II. After all, it is assumed that things and fortune will always—on balance—get better.

In so many ways, we have been fortunate. Yet now, most leaders and those they serve are unable to grip the nature, scale, and implications of disruptions that are underway. Denial and disbelief tend to be the default, not a pragmatic embracing of unthinkables and unpalatables.

The way things have been is not the way they are and will soon be. Destabilisation and subversion of all we assume and have taken for granted are underway. Handling the new disruptions requires new skills and talents. But leaders, who largely qualified for the top by conforming, are neither skilled nor prepared for what needs to be a profound, earth-shaking change in their approach. Conformity that qualified them for the top disqualifies them from providing the leadership needed.

This is why this reality check assembled by Andreas Krebs and Paul Williams is so intriguing.

Their comparison of twenty-first century leadership vulnerabilities with how the Inca empire first grew at an extraordinary rate to dominate South America, then imploded ignominiously, is both sobering and inspiring. As they report, there is always a "logic to decline." But, inevitably, the leaders involved are blind to that logic. The Incas showed that. They never fully realized what threatened them until far too late.

Like so much in business, politics, and leadership, the impact of what you read here in *The Illusion of Invincibility* was catalysed by a chance set of circumstances: a corporate invitation to travel to Latin America to conduct a business workshop. The research link would not easily have come sitting in Germany. But a personal intrigue to start lifting a private veil on the realities—both remarkable and shocking—of the Inca hegemony suddenly created a wholly different range of perceptions about the travails of being a leader today.

These ever deeper insights from an altitude of up to 3,500 meters in the Andes energize all that is reported and analysed in this book.

For example, Nokia should have learned much from the Incas. The company's breath-taking journey from forestry and manufacturing rubber boots in Finland to being a world leader in mobile phones, then its crash into ignominy with little value in a corporate fire sale, matched the rise and fall of the Incas. Authoritarian leadership, overambition, conceit, and hubris marked the record of both. Even Jeff Bezos of Amazon concedes that, one day, the mega global e-retailer he created "will fail." Probably because of blindness on that part of leadership to the fragilities created by success and inflated self-belief within one of the world's largest corporations.

The overarching message from the Incas for leaders is that there must be a "stress test for your egos." So review urgently our approach to HR. Review also who you seek to work with and who you seek to work for you. And think early enough about who and what comes next, after you have left the company.

It takes cunning and intellectual gymnastics to draw cogent lessons for present day leaders from the brutality, unbridled self-confidence, and "uncontrolled egos" of a South American empire at the height of its dominance five hundred years ago. But the analogies are sobering. It works.

So take note. And consider the relevance to how you lead.

Nik Gowing, London, UK

Foreword by Prof. Dr. Peter May

Leading expert on family businesses and strategic consulting for owner-led organizations.

Business people love a success story: a story of victory, of rags to riches, of making it. We are fascinated by entrepreneurial legends, no matter whether they hail from the digital or the industrial age. The path travelled from a one-man operation to the hundred-million-turnover "hidden champion" in one or two generations or the rise of a regional player to a global multinational—these are exciting role models that invite and inspire imitation.

But how certain can we be about the factors that lead to such an ascent? In hindsight, the reasons for a successful development almost always appear obvious: timely reengineering, cost management, well-thought-out strategies, the right product, the power of innovation—all these factors are repeatedly cited as reasons for extraordinary success. And they are correct—at least at first glance.

Over the years, the collective wisdom of business administration has assembled a framework of knowledge upon which, in its eyes, proper and effective business should be conducted. With specialist areas such as cost management, accounting, marketing, and human resources, this framework provides the academic tools on which real-life business success is widely assumed to depend. Stick to the rules of bookkeeping, profit-making and numerous other systems of prescribed business wisdom and everything will remain on the right track. But if this is true, why do so many companies fail? We're all familiar with cases in which everything has been done exactly by the book, yet a business has still disappeared without trace. And such scenarios are not choosy: they can strike the mid-sized engineering company or the multibillion-dollar corporation just as readily as the small business around the corner. Failure happens despite adherence to the generally accepted rules.

It is testimony to the merits of Andreas Krebs and Paul Williams that they have written a new chapter in the narrative of entrepreneurial thinking. In *The Illusion of Invincibility*, the writers engage with two fundamental constants of human endeavor: success and failure. They have the courage to transcend the comfortable boundaries of an isolated specialist discipline and to expose overarching links and relationships, revealing valuable parallels and insights for everyone active in the business world. They place fundamental questions in a new context: Why and under what conditions do systems triumph, become resilient, and have the ability to expand their sphere of activity? What triggers turning points and what causes decline?

Conventional thought on management brings only a limited supply of answers. Though the practice of management has undergone countless refinements and improvements since the publication of Peter Drucker‘s magnum opus *Concept of the Corporation* in 1946, it has, at a basic level, perpetuated "the company" as a universal frame of reference. This book goes further. It draws new links in precisely the places where they appear to be of highest potential benefit and interest. It enriches our leadership knowledge with historical perspectives and with an insight into the general principles of rise and fall, an approach that is both exciting and indispensable for modern business management. Furthermore, it is certainly no accident that Krebs and Williams regularly refer, for their overarching perspective, to the fate of the Incas, as the South American empire exemplifies both sides of the story—the rise and the fall.

The rise of the Incas lasted for centuries. In today's wording, that translates to a success story with more to offer than the usual reflections on short-term management—and even the decline of the Incas (as a result of the invasion of the Spanish conquerors and the fraternal strife of two rulers) provides valuable additions to our current management know-how. In pre-Columbian times, the Incas' knowledge of management and expansion was far superior to that of other peoples of the time; highly developed agriculture, a network of transport routes and an efficient communications system were the central pillars of a state system which, thanks to an effective combination of negotiation, cooperation, and the exercise of power, was readily able to expand its sphere of activity. Placing this in the context of companies, we would speak of international expansion, increased turnover, and market share gains.

The success of the Incas endured as long as they were successful in reconciling the individual interests of the powerful with those of other stakeholders in the ever more complex system and in taming the destructive forces that worked from within. However, the growth momentum which was generated by this carefully managed balance of power did not last forever. Seemingly small changes led first to destabilization before finally ushering in the Incas' ultimate demise.

Putting aside for a moment any attempts to relate these directly to business, we can recognize a number of system laws that appear to have stood the test of centuries. One of these, it would seem, is that the seeds of failure are inherent in any enduring success, because the responsible leaders become increasingly blind to new and unknown threats. New and emerging technologies can destroy the value of established management practices in a short space of time and necessitate the development of alternative approaches. The excessive egotism and nepotism of a system's key actors push it into the danger zone and accelerate its decline. Now, all these years later, the distance of centuries creates a clarity that enables us to draw parallels between that time and the present. Today, we are also experiencing radical upheaval—the cavalry and weapons of the Spaniards were the unknown, disruptive technologies at the time of the Incas; for us it is digitization and robotization. Back then, the Spaniards' techniques of rule and war were the sources of massive uncertainty for the Incas, while for us, it is the loss of continuity and reliability in politics and the accelerating change of social values on both a micro and a macro scale. What's more, people with excessive ego still exist, as do unnecessary conflicts, nowhere more so than in business.

This book should provide an opportunity for each of us to reassess where we stand. We should review our routines, cease to simply accept established knowledge as a permanent solution, and sharpen our perception of the forces acting inside and outside the system. Only then will we be able to influence the dynamics in our favor and create what we collectively need: a conscious and well-guided transition into a new age.

Prof. Dr. Peter May, Bonn-Bad Godesberg, Germany

The Unexpected Outcome of a Trip to Peru

This book is not about the Incas, but without the Incas, it would never have been written. It's a book about the rise and fall of organizations and the key factors influencing their successes and failures. It's about good leadership, honest and perceptive self-management, inspiring visions, high-quality people selection, trustworthy values, credible corporate governance, and organizational focus for long-term survival. It's also about the mistakes, many of them self-inflicted, that often occur in each of these areas and cause organizations, large and small, to stumble and fall. This book will help you to lead your organization better; it will help you manage yourself better, as well as understand your boss and your colleagues better. Oh, and it will make you think, smile, and maybe even shudder, sometimes all at the same time. But above all, it will help prevent you from falling victim to the illusion of invincibility.

How It All Began…

I don't often go to Peru on business. In fact, it's happened just once, but that one trip was enough to light the fire under me to write this book.

When one of my clients—a Swiss company—decided to appoint a new general manager for their subsidiary in Peru, the SVP of international business operations called my office in Germany. "Paul," the director said. "Would you be Rosa's coach as she prepares to take over the new position? You'd be her sparring partner, if you will." Then came the unexpected part of the offer: while most of the coaching would take place either in Zürich or in my office near

Cologne, he suggested that I travel to Peru toward the end of the process to run a workshop for Rosa and her new leadership team.

One evening, about three weeks later, I found myself sitting around a campfire with two friends who'd both lived and worked in Latin America for a number of years. I told them about my recent phone call, and their reaction was highly enthusiastic.

"Peru!" the first said. "Wow! It's one of my favorite countries in the world. Oh, the food, the culture, the people—the Incas!"

"You've got to see *this*, you've got see *that*, you must go *here*, you must go *there*," the other exclaimed. "And, Paul," he continued, "above all, what you absolutely *must not do* is spend three days in the Lima Hilton and then come straight home again!"

"Hold your horses, guys," I said. "I don't speak a word of Spanish, and I'm not one for adventuresome holidays. And if I *did* take a trip around Peru, I would never consider doing it on my own. I'd want to do it with my wife, or with some good friends, or—"

"We'll come with you!" they interrupted.

And that was that. On a sunny November afternoon in Lima, six months later, I walked out of the hotel after the workshop and a mini-bus was waiting for me across the road. The man behind the wheel was a local—one of our guides. In the passenger seats were six tourists with familiar, smiling faces, including the two friends from the campfire. And one of them was Andreas Krebs.

We thought we'd properly researched the highly developed Inca culture of the fifteenth and sixteenth centuries. We were wrong: In the breath-taking landscape at 3,500 meters above sea level, what we gathered from our Peruvian guides made us pause to think much further. In Tipón, located about eighteen miles northeast of Cuzco, and assumed to be a former agricultural research center of the Incas, we learned more about how, in just a hundred years, the Incas created an empire stretching almost five thousand kilometers along the

Andes, from what is now Ecuador in the north to present-day Chile in the south. They efficiently organized and held together a kingdom that was home to some two hundred ethnic groups; they created surpluses through clever agricultural techniques, established food storage facilities and cared for their sick and for families who had lost their main provider, all at a time when epidemics and famine were raging in Europe. We discovered how, before integrating a tribe or nation into their empire, they would first make an offer of a “friendly takeover” and only use their considerable military force if the offer was rejected. And we learned how they consistently endeavored to integrate the conquered people into their empire and maintain peace thereafter by resettling people and developing the local infrastructure.

Originally, the trip was intended to give us a few days to relax from our day-to-day work as managers, supervisory board members, investors, and coaches. Yet we suddenly found ourselves talking about management—Inca management. How could it be that the Incas, who had neither the wheel nor a system of writing, let alone modern communication technology, had built and dominated a vast empire, while many present-day mergers fail under far more favorable conditions? How did the Incas manage to establish an accepted governing elite that lasted for many decades, while modern senior executives often have to defend themselves against allegations of egomania and arrogance? Why did so many groups and communities choose to follow the “children of the sun,” while the attempts of today’s business leaders to steer company conglomerates on a common course often end in failure?

Of course, the methods of a rigidly hierarchical society of the early modern period cannot simply be transferred directly to the present day. But our heated debates made one thing clear: the Incas offer us a mirror and a chance to reflect on the behaviors and methods business executives use today. What at first glance appears so distant and alien can actually hit home. The Inca elite faced challenges similar to those of today's managers: formulating clear goals, persuading others to embrace change and innovation in a tough environment, unifying different groups, and implementing plans according to rigorous standards. When we look beyond many of the current management trends and buzzwords, be it "digitization," "diversity," or "disruption," one question remains unchanged: What is essential for leaders at all levels seeking to ensure their companies or organizations can achieve sustainable success? Successful management and leadership really depend on the answers to this question—and this book provides such answers. Having served as the initial spark of inspiration, the Incas provide a backdrop throughout the book as we draw on our own business experiences and on what our interviewees—senior managers from international companies, successful family businesses, start-ups, consulting companies, public sector organizations, and NGOs—shared with us along the way (see "Our Interview Partners"). We would like to thank all of them for their trust and openness, and we have chosen to anonymize some of the more personal or controversial stories.

This book is in no way intended to be a starry-eyed romanticizing of the Incas' story. Alongside impressive expansion, their reign was also characterized by deportations, often of entire peoples and villages, child sacrifices, and the rigid regimentation of individuals, who were not free to choose their place of residence or their occupation. Furthermore, after almost a century of uninterrupted success, the Incas suffered an equally monumental downfall: in 1532, the Spanish conqueror Francisco Pizarro defeated the Incas' twelve-thousand-strong army with fewer than two hundred soldiers and captured their ruler (the "Inca") Atahualpa. Within a few years, the Inca Empire had disintegrated, although the last Inca king, by that time a puppet of the Spanish conquistadors, was not executed until 1572. For all the resourcefulness, efficiency, and consistency the Incas had shown in the domination of their empire, they seemed helpless in the face of their new adversary, which leads us to ask whether all such outstanding successes are intrinsically doomed to fail at some point—whether every great triumph carries within it the first small steps toward failure.

Here, too, the parallel with the present is immediately apparent. Every manager and executive knows the names of the "global players," the seemingly unassailable companies, that have experienced dramatic decline or, in some cases, been obliterated completely: Kodak, Nokia, AOL, Pan Am, Arthur Andersen, and many more. If we take the annual Forbes list of the world's five hundred most profitable companies as our benchmark, it quickly becomes clear that scarcely a single organization has been able to maintain its place in the gilded ranks of the world's ten most financially successful companies over a longer period of time. Perhaps it is precisely the illusion of invincibility that predestines their often rapid fall from grace. For executives and managers, this means remaining constantly vigilant, particularly in times of "guaranteed" success, searching for weaknesses and constantly working to challenge and develop both themselves and the company. Otherwise, the danger is that they may suffer the same fate as a certain German executive whose pompous attempts to create a "Global, Inc." out of the Daimler Group marked the beginning of the end of his career and cost the company and its shareholders billions of dollars.

One more thing: While we have carefully researched the information about the Incas in this book and have talked with a number of experts in Peru, the United States, and Germany, we neither intend nor are able to provide more than just an overview of this fascinating culture. There are many other books that do this job much better than we can, and we have listed some of these in the bibliography. Our view of the Incas is a selective view through the eyes of managers working within large organizations. The Incas added an unexpected layer of meaning and insight to our view of the business world, and the lessons we learned surpassed in many ways the dozens of leadership seminars and workshops—with their assorted PowerPoint presentations—that we had both witnessed over the years. Our hope is that this book succeeds in conveying at least part of the fascination of this change of perspective and that our insights, analyses, and recommendations provide sufficient information and entertainment to encourage you to read the book from start to finish. After all, there are more than enough boring management books out there!

Andreas Krebs and Paul Williams,
Langenfeld, Germany
www.inca-inc.com

> “Many years of success can produce an unjustified degree of self-confidence and lead to the misguided belief: ‘We can do it all.’”
>
> DR. IRIS LÖW-FRIEDRICH, EXECUTIVE VICE PRESIDENT AND CHIEF MEDICAL OFFICER, UCB

What Goes Up Must Come Down?

A Look at the Fortune 500

Every year, *Fortune* magazine publishes the list of the top 500 companies. On this list appear the “big players,” those companies with the highest revenue in the world. And yet, hardly any of these organizations manage, consistently, to maintain their ranking among the titans. Could it be that the moment of greatest triumph is also the moment of greatest vulnerability? Does every extraordinary success carry with it the seeds of its own destruction? Must everything that goes up eventually come down? If global empires can collapse and advanced civilizations like the Incas’ can melt away into irrelevance in a matter of a few years, how on earth can our current business leaders and managers have any confidence that today’s success can be sustained into the future? More importantly, are there any warning signs of impending doom? Of course, these are not just questions for big businesses. After all, we all know of start-ups that demonstrate meteoric growth before failing equally spectacularly, as well as more traditional family businesses that flounder, seemingly without warning, after many decades of success.

Remember Nokia?

Ask a modern-day cellphone-savvy teenager what he thinks about Nokia and he will most probably give you a blank stare. Er…who? Nokia? Just a few years ago, this Finnish company ranked among the giants of the business world and dominated the global market for mobile telephones from 1998 to 2011. In 2004, Nokia made it into the top third of the Fortune 500, coming in at number 122. A small country with around five million inhabitants was the home of an undisputed leader in a key and growing global sector.

The story of Nokia reads like a Hollywood script. It is 1865, we are in the south of Finland, and an engineer called Fredrik Idestam builds a paper pulp factory on the banks of the Nokianvirta; he calls it Nokia. About thirty years later in 1898, Eduard Polón sets up the Finnish Rubber Works to manufacture rubber boots and tires. Another fifteen years go by, and Arvid Wickström establishes the Finnish Cable Works. From 1963 onward, the Cable Works manufactures wireless telephones for the army. The three businesses have already been working closely together for forty-five years when they merge to form the technology firm Nokia in 1967. The core businesses of forestry, rubber, cabling, electronics, and electric power generation are continued until deregulation of the European telecommunications market in the 1980s creates new opportunities. With the birth of the Scandinavian mobile phone company NMT (Nordic Mobile Telephone), Nokia manufactures the world's first mobile car phone in 1981 and, from 1987 onward, focuses on mobile phones and grows exponentially.[1] Other business areas like rubber, cabling, and electricity generation are hived off. The business keeps the consumer happy with technological innovations such as the "Communicator" (an early form of smartphone) and floods the market with sturdy and affordable mobile phones for the masses. In 2002, one in three mobile phones sold on the planet is a Nokia (market share of 35.8 percent), only one in six is a Motorola (15.3 percent), and fewer than one in ten is a Samsung (9.8 percent). For a long time, the highest selling mobile phone was the Nokia 1100, selling more than 250 million phones up to 2013.[2]

To the world, Nokia, with its headquarters in Espoo, Finland, appears invincible. Unfortunately, the company, too, starts to believe itself unbeatable. As Nokia reaches the pinnacle of its economic might, new competitors start to join the fray. When the first flip phones come onto the market in 2004, Nokia sticks with its tried-and-trusted designs. And when Apple launches the first smartphone with a touchscreen in 2007, CEO Olli-Pekka Kallsvuo describes the iPhone as a "niche product." In November of the same year, the front cover of *Forbes* magazine, complete with a picture of a rather self-satisfied looking Kallsvuo, asks the question: "One billion customers—Can anyone catch the cell phone king?"

Nokia's developers continue to come up with new ideas and pioneering products—for example, the first mobile phone with camera (Nokia 7650) or the Internet Tablet 770—but the organization is too slow and cumbersome to respond and is perhaps blinded by the accolades in the press. To make matters worse, a dispute breaks out among board members. Should they accelerate smartphone development or stick with making cheap handsets? Their long-serving head of the business in Germany describes the scene as "the very picture of a huge bureaucracy, populated by mobile phone functionaries with jobs for life."[3] At the beginning of the ensuing crisis, we can learn a lot about the nature of the problems by looking at how the employees of one of their larger European affiliates used dark humor to rename their meeting rooms. "Helsinki," "Berlin," and "London" became "Won't Work Here," "Will Never be Approved," and "Global Wants It."[4] ("Global" refers to the company's monolithic headquarters in Finland.)

As quickly as it had forged ahead in the previous ten years, the company now heads into decline. Nokia's market share starts to slump in 2008 and, from 2011 onward, the business operates at a loss. A cooperation agreement is put in place with Microsoft in the same year.

Its own operating system is to be ditched and Nokia mobile phones will run on MS Windows. The rest of the market looks on in amused disbelief and jokes about the two rusty old battleships heading off into the sunset together. The Nokia products are no match for the Apple iPhone or for the Android phones made by Samsung, LG and other manufacturers, and two years later, Microsoft takes over Nokia's mobile phone business. The trade magazine *connect* commented, "The Finnish mobile phone phenomenon has come to an end." Nokia positions itself today as a leading supplier of network technology. Since 1999, its share price graph looks like the outline of a mountain range, with dizzying heights around the turn of the millennium and flatlining from 2009 onward. Anyone buying a Nokia share in 2000 had to pay more than sixty dollars. By mid-2019—and for the five years before that—the share price has stagnated at around six dollars.

Those familiar with the history of the Incas will see plenty of parallels with the Nokia story. In both examples, a small nation changes the world because it is more inventive, more disciplined, and—at least, at first—more successful than the competition. Both are able to seize the moment. The growth catalyst for Nokia was deregulation of the mobile phone market, combined with know-how in wireless telecommunications. For the Incas, it was a period of unusually cold weather in the Andes and along the Pacific coast, around 1100, which allowed their superior know-how in agriculture, irrigation, and farming techniques to come to the fore. While other tribes abandoned the cold hills, and drought on the Pacific coast combined with very heavy rainfall elsewhere led to migration and conflicts, the Incas stayed true to their motto: "Bring Order to the World." They carved out thousands of terraces on steep slopes, built irrigation systems, and diverted rivers. They only planted crops that were appropriate for the prevailing climate, cultivating a variety of potato that easily lends itself to freeze-drying, for example. The Inca expansion was, to a large extent, built upon farming techniques which led to agricultural and thus economic success.

Just like the Finns, who enjoyed worldwide success with their reliable and affordable technology, the Incas exported their successful agricultural methods into neighboring lands and thereby gained more and more influence. Their Golden Age started in the reign of Pachacutec Yupanquis (1438–1471) and brought large land gains. But just like the Finns, who could hardly imagine that their run of success would ever come to an end, the Incas stuck with tried-and-trusted solutions when confronted with an opponent who played by a completely different set of rules. Just as Nokia, with its wide range of affordable products, simply could not imagine losing its market leadership to Apple, with its single, expensive product, so the Incas found it impossible to adapt to an opponent who was not to be caught out by their hitherto successful approach of offering the choice between a "friendly" takeover or being forced into submission. The Spanish conquistadors, led by Francisco Pizarro, had arrived.

Internal conflicts sealed their fate in both cases. For the Incas, it was the civil war of 1527, when Huayna Cápac divided the empire between his two sons, Atahualpa and Huáscar. Both brothers called on the tribes of their respective mothers and other allies and fought each other fiercely. By the time Francisco Pizarro reached the Inca Empire in 1532, it was already severely weakened and therefore easy prey for the invaders. Nokia's downfall was accelerated by the boardroom battle over company strategy which started in 2007 under Olli-Pekka Kallasvuo. The battle was between those pressing for a change of strategic direction, away from cheap cell phones toward smartphones, and those arguing against such a change. In both instances, powerful and seemingly invincible leaders slid away into irrelevance within a matter of a few years—on one side, the "Kings of the Andes," on the other, the masters of the mobile phone market. Is it inevitable that a continued period of success leads to a state of hubris which contains the seeds of its eventual destruction? Is the risk of failure an intrinsic part of every great triumph?

Rapid Rises, Dramatic Falls

A close look at the biggest businesses in the world, as measured by annual turnover, is a lesson in humility. In 1990, the American magazine *Fortune* published the first global Fortune 500 list, based on the previous year's sales. If you compare the top ten from this list with the top businesses in 2000 and 2017, you realize the fragility of success, no matter how outstanding the company. Only five of the original leaders are still in the top ten (highlighted below) ten years later. A further seventeen years on, just four of the 1990 leaders (also highlighted) are still there:

The Top Ten in the Fortune 500 list for 1990

Ranking	Company	Country	Turnover-1989 (US$ billion)	Sector
1.	General Motors	USA	126,974	Auto
2.	Ford	USA	96,933	Auto
3.	Exxon	USA	86,656	Oil and Gas
4.	Royal Dutch Shell	Netherlands	85,528	Oil and Gas
5.	IBM	USA	63,438	IT
6.	Toyota	Japan	60,444	Auto
7.	General Electric	USA	55,264	Ind. Holding
8.	Mobil	USA	50,976	Oil and Gas
9.	Hitachi	Japan	50,894	IT
10.	BP	UK	49,484	Oil and Gas

The Top Ten in the Fortune 500 list for 2000

Ranking	Company	Country	Turnover-1999 (US$ billion)	Sector
1.	General Motors	USA	189,058	Auto
2.	Walmart	USA	166,809	Retail
3.	ExxonMobil	USA	163,881	Oil and Gas
4.	Ford	USA	162,558	Auto
5.	DaimlerChrysler	Germany	159,986	Auto
6.	Mitsui & Co.	Japan	118,555	Ind. Holding
7.	Mitsubishi Corporation	Japan	117,766	Trading
8.	Toyota	Japan	115,671	Auto
9.	General Electric	USA	111,630	Ind. Holding
10.	Itochu	Japan	109,069	Trading

The Top Ten in the Fortune 500 list for 2018

Ranking	Company	Country	Turnover-2017 (US$ billion)	Sector
1.	Walmart	USA	500,343	Retail
2.	State Grid	China	348,903	Energy
3.	Sinopec Group	China	326,953	Energy
4.	China National Petroleum	China	326,008	Energy
5.	Royal Dutch Shell	Netherlands	311,870	Energy
6.	Toyota Motor	Japan	265,172	Motor Vehicles & Parts
7.	Volkswagen	Germany	260,028	Motor Vehicles & Parts
8.	BP	UK	244,582	Energy
9.	Exxon Mobil	USA	244,363	Energy
10.	Berkshire Hathaway	USA	242,137	Financials

The list reflects the tectonic shifts of the global economy. In 1990, the United States is leading the list with six companies, followed by Japan with two. By 2017, however, there are only three American companies and one Japanese, but three from the People's Republic of China are in second, third, and fourth place. Well-known names such as IBM (the fifth-largest company in the world in 1990; ranked 92 in 2017) or General Electric have dropped out of the top ten completely. The 1990 leader, General Motors, ranked forty-first in 2017. The oil and gas giants now dominate the list more than ever, taking six of the top ten places. Berkshire Hathaway is the first financials company to make it into the top ten.

For a long time, General Electric (GE) served as a role model for generations of business managers, ranking year after year in the top ten of the Forbes 500. How was it possible that this icon of American industry could so suddenly and comprehensively collapse? After a period of continuous decline in share price, on June 26, 2018, GE was removed from the Dow Jones Index. This was a bitter moment indeed, as GE was one of the original members of the Dow when it was launched in 1896 and had been included in the index continuously since 1907. A typical selection of those elements which guarantee decline were to be found at GE: a disintegrating corporate culture, gigantomania, blatant financial trickery, and balance sheet manipulation. In just one year, over $125 billion of the company's market capitalization was wiped out.[5]

One of the maxims of the business world is "the only thing that is certain is uncertainty," with past performance being no guarantee of future performance. Unfortunately, this almost always seems to be forgotten during prosperous times, leading to some reckless decisions. In 2000, the German car manufacturer Daimler made a brief appearance in the top ten, thanks to its merger with Chrysler. CEO Jürgen Schrempp described the merger as "a marriage made in heaven." Schrempp's ambitious plan was the creation of a "global corporation," ignoring all evidence of the problems which arise from mergers and acquisitions, and the skepticism of his own dealers. Unfortunately, the dealers were right: In 2009, the heavenly union ended in a forty-billion-dollar divorce. The DaimlerChrysler saga is a perfect example of a senior executive's unchecked egomania and a failed merger strategy. We will go into greater detail about these traps and how difficult it can be to avoid them in Chapter 8 ("Ego Beats Reality"). After all, no confident and tenacious manager who has made it to the top of the greased pole is immune from an inflated ego. So, the challenge is this: How can you stay on the right side of the fine dividing line between ambition and egomania, or between visionary drive and megalomania? How can you protect yourself from your own "Indiana Jones moment"?

Wait a minute. You're probably thinking: What's wrong with following in the heroic footsteps of the thrill-seeking movie character? Well, to be blunt, the archaeologist Indiana Jones is anything but a role model. Yes, at the end of each of his adventures he has found the prized treasures, but only after leaving behind him a trail of dust and destruction, including ruined temples and monuments. Just like the character of Dr. Jones, played by Harrison Ford, many managers tend to confuse self-interest with service for the greater good, often doing their businesses an enormous disservice as a result; since we've had some personal, front-row experience with this, in the final chapter, we'll tell you about our own Indiana Jones moments. Before that, however, in Chapter 6, we will take a closer look at the other reasons why big company mergers, like that of Daimler and Chrysler, fail so spectacularly, and explore what modern business managers might learn from the Incas and their well-crafted approach to integration.

But let's get back to the Fortune 500. The car industry provides many examples of corporate failure, and any analysis needs to address the question of corporate values. Time will tell how Volkswagen, ranked number 7 in the Fortune 500 in 2018, will fare in the light of the "Dieselgate" scandal. In the US, revenue was down tremendously soon after the irregularities were uncovered,[6] with VW having advertised its diesel cars on American television as being super clean. In one ad, an older lady holds a pure and pristine white cloth behind a car exhaust pipe with the engine running, and the cloth remains whiter than white. Those who so blatantly blur the lines of corporate values will pay—or are paying—the price (see Chapter 4). Once described by one of Europe's leading current affairs magazines, *Der Spiegel*, as "North Korea without the boot camps,"[7] the corporate leadership culture at VW is a good example of why company values have to be much more than just slogans for use at town hall meetings and offsite workshops. At VW, employees trembled with fear in front of senior management, as they could lose their jobs if they didn't meet targets and stay within budget. Consequently, they covered up and fiddled problems, and now the business is faced with much higher costs arising from fraud. Even after the manipulated software was first exposed, VW's inconsistent relationship with company values continued unabated. In the spring of 2016, while blue- and white-collar employees were in fear of losing their jobs and taking pay cuts, the top management pushed through seven-figure bonus payments for themselves, still convinced that they had done everything "right." Since then, it has become increasingly clear that management performance needs to be reevaluated, and calls are getting louder for these performance bonuses to be paid back. And rightly so! By April 2019, the diesel scandal had already cost the company twenty-nine billion euros; international investor groups were lining up with damage claims, and, most recently, another 5.4 billion euros in accruals had to be put aside by the CFO. It remains to be seen whether that will be enough.[8] Meanwhile, over seventy criminal cases against individual managers have been filed in the United States and Europe. In fact, ex-VW CEO Winterkorn and nine other VW and Audi managers no longer dare to travel to the US for fear of being arrested on the spot.

Of course, many other factors have an impact on business success, and we will take a closer look at them in the course of this book. At what point does an emotionally charged business vision start to be counterproductive (Chapter 1)? How were the Incas able to succeed over many decades in entrusting leadership to the most talented, an area where many businesses fail (Chapter 2)? What defines credible leadership (Chapter 3)? How can businesses today avoid the kinds of destructive power struggles that brought the Inca Empire to its knees? And, when faced with other people's self-interest and biases, how can managers remain level-headed and make objective decisions? A careful analysis of Inca history can provide answers to these questions. For five hundred years, the way the Incas were viewed was heavily influenced by their insatiable conquerors and Catholic missionaries. The newcomers justified their brutality by denouncing the Incas as a "primitive" culture. Bearing this in mind, it's well worth asking yourself: "Who's telling me what, and why?" (Chapter 7, "Sound Judgment.")

The Logic of Decline

Two and a half thousand years ago, Greek philosopher Heraclitus of Ephesus pointed out that "there is nothing more constant than change." In the Bible, Joseph warns the Pharaoh that seven years of famine will follow seven years of plenty (Moses 1:41). The Middle Ages produced images of the goddess Fortuna spinning the wheel of fortune—relentlessly and without any emotion. There is a clear common message. The fate of whoever happens to be at the top can quickly change. Nothing will stop Fortuna from spinning them around and down, but of course there is always a chance they will end up back at the top again.

The idea that success is fickle is probably as old as mankind. For businesses, this means that not only stunning successes are always possible, but also catastrophic collapses. And while "disruptive technology" may be a fashionable buzzword today, this idea was already the basis of Joseph Schumpeter's theory of "creative destruction" formulated more than seventy years ago. This asserted that the driving force of capitalism was innovation; new and better processes and technology continually challenge the established order, and the ground rules for production are constantly changing. From this perspective, the mechanical loom and the steam engine can be seen as agents of "disruption," only to be rendered obsolete by innovation's next throw of the dice.

Those who want to stay ahead of the game must keep changing and constantly adapt in order to remain relevant and survive. We all know examples of businesses that missed the boat and let progress pass them by. Some carried on producing typewriters even as the personal computer came to dominate. Others produced flashlights, even though every smartphone now includes a flashlight function. On top of external factors, homegrown mistakes can send a business into decline, as we saw at DaimlerChrysler, GE, and VW. As early as 2004, Gilbert Probst and Sebastian Raisch at the University of Geneva were asking themselves if there could be such a thing as a "logic of decline." They analyzed the hundred biggest corporate crises of the previous five years in the United States and Europe, looking at the fifty biggest insolvencies and fifty companies whose market capitalization had collapsed by a minimum of 40 percent in the same period.

Probst and Raisch identified four characteristics of consistent and sustainable business success:

- Performance-driven business culture[9]
- Strong growth
- Willingness to embrace constant change
- Strong ("visionary") leadership

Interestingly, 70 percent of the businesses that failed actually displayed all of these characteristics—but to excess! These organizations suffered badly from over-rapid growth, hasty change processes, excessively powerful and stubborn CEOs, and an "exaggerated performance culture."

Performance Culture

An extreme performance culture—one with high salaries and bonuses, for example—fosters rivalry, along with a mercenary attitude. Employees attracted by such a culture are quick to leave the sinking ship if the business suffers a downturn in fortune, thereby accelerating its decline.

Growth

Rapid growth frequently results from too many acquisitions in too short a time period. This not only creates obstacles for business integration, but frequently overburdens the acquirer with high debt, which in turn becomes a problem during periods of lower turnover. Good examples of this are the US conglomerates Tyco and ABB. When change is not properly managed, the result is disorientation at all levels. At ABB, following sixty takeovers and countless restructurings and changes of direction, there were moments when employees were no longer certain what the business was actually there for. The final nail in the coffin is having a top management that fails to recognize the scale of the problems because past success has made them self-satisfied, dazzled by their own brilliance, and oblivious to the dangers they are facing. The business burns out, sinks into insolvency (for example, Enron, which grew 2000 percent between 1997 and 2001), or is weighed down by mountainous debt (as seen at British Telecom, Deutsche Telekom, and France Telecom). Probst and Raisch talk about "burnout syndrome." More recent examples of this would include Porsche AG—which was assimilated into the VW group after a failed takeover attempt left it badly exposed—the ever-changing history of Infineon, and the demise of Valeant, which we analyze in Chapter 6.

Change

The collapse of successful businesses is not always determined by fate, external events, or disruptive technologies, but is frequently the result of a string of poor management decisions which, taken together—according to Probst and Raisch—form the basis of the "Logic of Decline." So far, so bad. Unfortunately, it's not the case that all a business needs to do to stay on a solid footing is to take its foot off the accelerator. The other 30 percent of businesses failed due to their inertia and weak, indecisive management. A phenomenon referred to as "Premature Aging" is when turnover stagnates, innovations are ignored, board members block reforms, and an overly benevolent business culture prevents essential personnel reductions from taking place. Examples that come to mind include Eastern Airlines, Kodak, Xerox, and Motorola.

Ideally, a business should continuously seek the right balance, looking for healthy growth and steady change, supported by proactive change management, which requires its employees to adjust and adapt without overstretching them.

Leadership

Except in periods of serious crisis, autocratic leadership is counterproductive. Successful organizations rely on mutual exchange and good governance all the way up to the top. This fosters a "defensible culture of trust" in which good performance is rewarded and poor performance is sanctioned, without turning the organization into an eat-or-be-eaten shark-infested pool.[10] All this requires a reflective and level-headed top management which acts consistently and decisively.

And yet, as convincing as these factors appear with the benefit of hindsight, introducing them into the day-to-day running of a business is highly challenging. Who can say with any degree of certainty whether we are enjoying a period of healthy growth, rather than starting to overheat? Or whether the business culture still supports an acceptable degree of competitive spirit, rather than promoting mercenary attitudes?

Moreover, there is that fundamental dilemma which the management visionary Jim Collins highlighted in his essay "How the Mighty Fall" about businesses ruined by their own success-induced complacency.[11] A business (or its leadership) must start to change course before its problems are clear for all to see. This must happen in a period when everything still appears to be running smoothly. "Amazon is not too big to fail," Jeff Bezos said recently. "In fact, I predict one day Amazon will fail. Amazon will go bankrupt. But our job is to delay it as long as possible. If you look at large companies, their lifespans tend to be thirty-plus years, not a hundred-plus years."[12]

Probst and Raisch concede that it is psychologically challenging to "change a strategy that, at least superficially, appears to be successful."[13] But it is not, apparently, impossible, as Bezos's remarks above prove, assuming he turns these observations into actions to prevent the failure he refers to. It certainly takes an enormous amount of humility, combined perhaps with a healthy fear of failure, to make such a statement when heading up one of the most successful companies ever seen on this planet. Indeed, the Amazon boss's insights would have been useful guidance for the Incas, who might then have slowed down their rapid expansion earlier, before increasing resistance had made their empire too expansive to govern.

Collins's analysis of the factors that lead to the downfall of large corporations significantly ties in with the work of his colleagues in Geneva. Based on his analysis of a combined six thousand years of company history, he highlights the key reasons for companies' decline: managers taking success for granted, greed for more power, higher revenue, greater size, and the denial of risks and threats. Once problems can no longer be ignored, frantic rescue attempts ensue, followed shortly by complete capitulation. But Collins, too, is making his observations with the benefit of hindsight. In reality, the burning question is this: How do we, the executives responsible for the day-to-day management of our businesses, recognize the early warning signals? How can we counter the logic of decline in the early stages? How do we raise our level of awareness; how do we gain deeper insights beyond the day-to-day business? The following chapters address these and other questions. At the end of each chapter, we summarize the most important takeaways under "Inca Insights." So, let's get started!

INCA INSIGHTS

- **The moment of greatest strength and success is also the moment of greatest vulnerability.**
- **Analyze your weaknesses, especially when you are starting to feel invincible!**

> "Becoming Number One in everything you do has to be your prime objective. However, being Number One doesn't mean being the biggest."
>
> GERD STÜRZ, HEAD OF LIFE SCIENCES (GERMANY, AUSTRIA, SWITZERLAND) AT EY

1 A Compelling Vision (or the Pitfalls of Ambition?)

A company's glossy brochure or website usually includes a "vision statement" and, if you ever want to flatter a senior executive, just describe him or her as "a visionary." But, in the real world, is a vision statement *always* useful for motivation? For many decades, this certainly was the case for the Incas—up until the point when their ambition led to a dramatic downturn in fortune. Even today, the maps of their empire are still impressive, as they illustrate a period of continuous expansion achieved in just six decades and stretching around 2,500 miles down the west coast of South America. At its peak, the Inca Empire included parts of modern-day Ecuador and Peru, Bolivia, Chile and Argentina. What lay behind this rapid and almost insatiable appetite to conquer? The Inca lords found affirmation in their vision: "Bring Order to the World." Inca Pachacutec took a name which translates to "World Reformer" or "Savior of the Earth," and the empire's expansion started during his reign in 1438. The Inca "global corporation" viewed bigger as better and biggest as best, rather like today's global players in Silicon Valley—although in the end their enormous empire became practically ungovernable, so retreat was not an option. Any similarities with today's big businesses are more than just coincidence. The Incas considered every enemy of a tribe they had conquered to be a new enemy for them, which meant