McKinsey&Company

Cisco's John Chambers on the digital era

March 2016

How significant is the digital era? It's the biggest technology transition in history, according to Cisco's executive chairman—and requires a proportional response from companies.

When John Chambers became chief executive officer of Cisco Systems in 1995, the world had barely entered the modern information age. About 18 million American homes were online, but only 3 percent of users had signed onto the World Wide Web. Amazon.com had just started, calling itself "Earth's biggest bookstore." And President Bill Clinton's White House had only a year earlier gone online.[1]

By the time Chambers stepped down as Cisco's CEO last year, to become executive chairman, the information age had fundamentally transformed almost every aspect of society. Yet Chambers believes it's not over. In this interview with McKinsey's Rik Kirkland, he says the world has now entered a digital era that will be "the biggest technology transition ever." He describes the changes Cisco has implemented to cope with the accelerating pace of change and argues that companies that fail to adapt are just likely to fail. An edited transcript of Chambers's remarks follows.

Interview transcript

If you're a leader in today's world, whether you're a government leader or a business leader, you have to focus on the fact that this is the biggest technology transition ever. This digital era will dwarf what's occurred in the information era and the value of the Internet today. As leaders, if you don't transform and use this technology differently—if you don't reinvent yourself, change your organization structure; if you don't talk about speed of innovation—you're going to get disrupted. And it'll be a brutal disruption, where the majority of companies will not exist in a meaningful way 10 to 15 years from now.

[1] See "World Wide Web timeline," Pew Research Center, March 11, 2014, pewinternet.org.

This digital age is the connectivity of going from a thousand devices connected to the Internet to 500 billion. It will transform business. It will transform our lives, our healthcare system. Business models will rise and fall at a tremendous speed. It will create huge opportunities—probably $19 trillion in economic value over the next decade, incremental above what we're seeing today. That's the size of the US economy, plus some.

But it will also result in tremendous disruption. And this is where it's so important—whether they're countries or companies, regardless of their size—that you either disrupt or you get disrupted. Probably 40 percent of enterprise customers around the world will not exist in a meaningful way ten years from now. When I said that two and three years ago, my CEO counterparts said, "Hey, John, you called the other transitions right, but I think that's way too aggressive." I think now most CEOs would agree. If they don't change, they get left behind.

Evolving the organization

When many people think about this, you want to think about the intelligence of an architecture, where you can get access to any data, any point and time you want. It's simple to describe, but it really means you're dealing with intelligent networks—a next generation of the Internet, if you will. But connecting 500 billion devices doesn't get the job done. It's the process change behind it. So you've got technologies like cloud or mobility and cybersecurity and the Internet of Things that are very important. That's actually the easy part.

The hard part is how do you change your organization structure? How do you change your culture to be able to think in terms of outcomes for your customers? It's all about speed of innovation and changing the way you do business. The majority of companies will be digital within five years, yet the majority of their digital efforts will fail, which speaks to what a CEO has to do differently.

She or he has to think much more outside the box. They have to reinvent themselves. They have to reinvent their company. Not stay doing the right thing too long, if you will. That's what got companies in trouble in the past. But the rate of change then was much slower. Today, you're talking about digitization being an integral part of the fabric of a company's business strategy or the way it interfaces its supply chain with its customers. Not enabled by technology—technology will become the company.

How Cisco has changed

Focus more horizontally on how things work together as opposed to silos. If all you do is have a bunch of silos in your company that don't really talk to each other, you're going to get displaced by, perhaps, a small company that has just a CEO and a CIO and has $1 billion in sales. (To read more about breaking down internal silos, see "Making collaboration across functions a reality."[2])

[2] Ruben Schaubroeck, Felicita Holsztejn Tarczewski, and Rob Theunissen, "Making collaboration across functions a reality," *McKinsey Quarterly*, March 2016, McKinsey.com.

We transformed our engineering organization from being in silos to being horizontal, taking out about 5,000 people. We worked across the groups, refocused on leaders who could work horizontally together as opposed to in silos, the majority on their own profit and loss. We changed our sales organization, which is one of the top sales organizations in high tech; most people would agree with that description. Yet we changed 41 percent of the client interface and execs because they were selling routers and switching technology, not business outcomes, architectures, and speed-to-market delivery.

And it caused us to change our top leadership. We changed probably 40 percent of our top leadership over the last two years. That's not something I'm terribly proud of, but it's something that we had to do so that we disrupt as opposed to be disrupted. So, when I talk about, in theory, what CEOs need to do, this is what we did ourselves.

Finding innovation

The sources of innovation have to move from being something you do on the fringe to something you have to do mainline. We've been in this transition for almost 20 years at Cisco. We've done 184 acquisitions. We use M&A as a way to enter new markets, and we're number one or number two in 16 major product families. Our targeted minimum market share is 40 percent, which we hit most all the time. But it's about to change again. We have to do this faster. We have to create an environment of really rapid innovation internally.

The first step is merely making it an independent group, because if you do it inside your organization, your existing culture will kill it. So why do these transitions fail or succeed? Companies fail to understand the implications of how quickly this technology will transform their business. And they underestimate what it really means to their economic growth or that of their competitors.

Secondly, they stay doing the right thing too long. And that's what gets so many of us trouble, because we're trained to get a 3 to 5 percent increase in productivity. To just crank it: do a little bit better each year; cut expenses a little bit; grow the top line. This is about exponential change. □

John Chambers is the executive chairman of Cisco Systems. **Rik Kirkland** is the senior managing editor of McKinsey Publishing, based in McKinsey's New York office.