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McKinsey conversations with global leaders: John Chambers of Cisco

The CEO and chairman of Cisco Systems explores approaches to decentralized management and leadership and also offers perspective on the future of Web technology and the opportunity that an economic downturn provides for strategically minded companies.

John Chambers, CEO and chairman of Cisco Systems, leads off our video interview series *McKinsey conversations with global leaders*. This ongoing project explores vital management issues, industry insights, and topical analysis with CEOs of today's leading global companies.

In this transcript of our video interview, Chambers explores approaches to decentralized management and leadership. He also provides perspective on the future of Web technology and the opportunity that an economic downturn provides for strategically minded companies. James Manyika, a director in McKinsey's San Francisco office, conducted the interview in San Jose, California, in May 2009.

The downturn: Positioning for opportunities

The *Quarterly*: *Let me start with a topic that's probably on everybody's mind right now: the downturn and the current crisis. How do you see it?*

John Chambers: Lots of people say, "What are you going to do in the next month or the next quarter?" And this is my fifth downturn over the last 20 years. We've always gained market share and emerged stronger than we went into it. Part of the reason that we did that is we don't look short term. No one knows for sure. But we're preparing ourselves for how we look, whether it's six months out or 24 months out. Strategy doesn't change. But if you push me, I'd say it feels like it's starting to level out. My customers, for the first time, have something firm underneath their feet. That's no guarantee that it won't drop off again or stay flat for a long time, but you have to have a leveling off before you have an upturn.

The *Quarterly*: *What are you telling your customers? I imagine your partners are probably quite anxious, your employees are probably quite anxious—what are you telling them?*

John Chambers: Well, the most important thing I tell them is, don't make your decisions on the next month or the next quarter, because your observations are likely to be wrong. Secondly, as tough as this is, this is when you have a chance to make change. And, while I always wish we had avoided it, how you handle what we call market transitions—and part of that is economic challenges—determines where you are in the future. And unfortunately, the more disruptive they are, actually, the more opportunity they offer.

So we just communicate very openly and transparently with our customers, our employees, our shareholders. We're very upfront that we talk to almost every major government and business in the world and key economists—no one knows. And we say, if you had to say what's the most likely scenario, here's how you outline it, and how do you build flexibility into that? So that's what I tell the customers.

The *Quarterly*: *If you look around the economy and the sectors, you're seeing businesses hunkering down; you're seeing companies cutting back on research and innovation. Most innovation initiatives are on hold in most companies. You introduced something quite the opposite to that. Can you explain what you're doing?*

John Chambers: Let me put it in context first. In 1993, 1997, 2001—which was life or death for our industry—again 2003, and now in 2009: those are the five major economic challenges we've seen. In each of those, we went into them with kind of a playbook, if you will, of what we run our plays on during economic tough times. And we've tweaked them over the years but haven't changed it dramatically. Then we develop a game plan for the uniqueness of the given economic challenge.

So where we are today is we are at a time that, having learned from 2001, we go into this one with $34 billion in cash. We go into this structure with an innovative management structure that is more around empowering groups—with a very disciplined process behind it—and empowering groups in a way that allows them to move across into market adjacencies with a speed and efficiency and, hopefully, a much higher hit rate than we've ever been able to do.

We see all of these market transitions going on at the same time; so, instead of doing 1 or 2 a year, like we did during each of the economic slowdowns—the four that we'd seen before—we're going to do 30. And it sounds impossible. But without the structure that we started on in 2001, and without the discipline we added to that structure in 2003, it would be impossible. And it's all around technology enabled by collaboration and network technologies, called Web 2.0. So, without the technology, even if you had the organization structure and the business models right, you couldn't do this. A nice way of saying, "Yeah, we're going to be the most aggressive we've ever been in our history."

The *Quarterly*: *What have been the hardest lessons you've learned about how to survive, innovate, break through? What have you learned?*

John Chambers: Well, I might break the answer into several pieces. First is—make no mistake about it—while we sound like we move fast, we are very disciplined on how we move. And so, the first part is that there are rules for an economic downturn. The first is, be realistic: how much did the macroenvironment cause, and how much of it is self-inflicted? And you've got to address the self-inflicted part as you get ready to come out.

The second is, determine how deep it's going to be and how long it's going to last. And cannily, you set your plan appropriately. It will usually be deeper and last longer than you think. The third one really ties back to concepts about how you get closer to your customer at a point in time and how you use these downturns really to move into the market adjacencies. So we have a very disciplined approach on it.

It is that type of combination of discipline with process, with innovation of willing to try things and then, if it works, building the strategy around it. And that ties back to mistakes. You were very kind, but we've made a lot of mistakes. But the two that repeat are when we don't move fast enough. And you might say, "Well, John, you all move at tremendously fast speed." May be true, but almost all the windows of opportunities I've missed—areas that got ahead of us that we couldn't get back into without doing big acquisitions or something—have been when I've moved too slow.

The second element, however, equally important, is if you try to move too fast without a process behind it that can scale, have flexibility, and be able to be replicated, that's equally as bad as not moving fast at all. And so, it's building on those with today's models we talked about, et cetera, that I think represent the future.

The big picture: The future of Web technology

The *Quarterly*: *You said you're going to be aggressive. What does that mean?*

John Chambers: Well, aggressive means we're going to be aggressive in moving into new markets that we traditionally might have moved into slower. It isn't so much just the economic downturn that causes that; it's when opportunities open up windows, if you will. You either get through and the window comes shut behind you, or it prevents you from getting through.

And we're seeing a large number of opportunities open up with tremendous speed, whether it's virtualization of the data center, where serving technology and storage technology and network technology and software come together—if you don't move now, you get left behind. It isn't about the data center, it's all the way to the home; video architecture, which may take you from a single device, like a flip company we just recently bought; all the way through telepresence. But it isn't about individual products, it's about how it plays together architecturally to change business models or entertainment; or the approach on how you move in the sporting arenas, wire the stadiums, but take that experience straight into the home.

It really talks about catching these transitions or getting left behind. And so, we're fortunately structured in a way that we believe—and time will tell if we're right or wrong—allows us not to do one or two priorities, like we had done before, but almost three dozen. When we were entering orders online and doing customer support online—when Cisco did that in the early '90s—they said, "Oh, that's just you high-tech guys. You're a little bit weird anyhow." And we, in fact, know that within about three years, every industry followed this, and it [lead to] productivity and growth not just for Cisco, but for our customers and for our peers, for almost a decade.

We now think you're entering the second phase of this productivity growth. It's all going to be around collaboration and network-enabled technologies called Web 2.0 that enable collaboration. And what you're seeing, to the first point of your question, is a tremendous explosion in terms of the utilization of these technologies.

And it's not top down, where I'm telling people to use it. I just show what's capable and then, cannily, it's like a virus that grows. So our Web blogging, if you will, which if you'd have told me I was going to blog three or four years ago, I'd have said, "Take it to the bank. That's not going to happen." Blogging is the way I communicate with our employees—almost all video. Our utilization of discussion forums, you have ongoing topics you deal with, is not up 160 percent over the last year, it's up 1,600. Taking YouTube capabilities and bring them internal—we call it CiscoVision—is up 3,100 [percent], with 54,000 employees out of 66,000 using it in the last year. Using Webex capability, where you collaborate both internal and external through firewalls, utilization is up 3,900 percent.

Those are clearly numbers that indicate a new market transition. And it enables these new organization structures and the new business models that we talked about. That's probably the most revolutionary thing going on. Investing in IT the last couple of years didn't necessarily get you the productivity or the standard of living change. It's these new technologies that will drive the next wave of productivity. So that would be a statement of concept two years ago, but we're now seeing it ourselves in how we're using it; and government leaders, as well as business leaders, are beginning to grasp what is possible here. So I'm pretty optimistic on what this means for this country but, clearly, also for countries around the world.

The *Quarterly*: *What does this mean for your customers? If you're a company—so I'm a bank, or I'm a retailing company—tell me what this allows me to do and what the potential impact of these collaborations will be?*

John Chambers: Well, let's assume that driving productivity at 5 to 10 percent a year is doable. So, the first thing the CEO says: "What's doable in my industry? Where am I leading, where am I falling behind? And walk me through an example." You could take, basically, when a customer walks into your store: you can identify who that customer is by a security camera. And people often use those cameras not for security as much as they do for treating the customers in a way the customer wants. If the associates and the management team recognize me when I go into a store and they know my buying patterns, they're able to help me more effectively. They can say, "Do you want any special service?" They're able to automatically take some digital signage and—say they know that I perhaps might like fishing gear in Wal-Mart and they also know that I like Wal-Mart's deal on nice wines at a very good price—so they watch my buying behavior and then, suddenly, as I go past the digital sign, say, "The fishing gear—we're having a special sale over here. And by the way, here's a wine that you may want to look at." And you look at that, and you say, "How is that possible?" That's going to come.

And in the electronics area of a store, where suddenly an associate might only be needed one or two hours a day because of the level of complexity of the questions, suddenly that associate can be beamed in from any Wal-Mart store anywhere around the area. Or the store manager can suddenly take a look—"Here's what my aisles look like." They can watch what customers are being attracted to or not. You suddenly can change supply chain, next-generation supply chain. Instead of taking 18 months from the idea of a fabric to translating it through into clothes in the store, it could perhaps occur in 3 to 6 months.

It can cut your travel budget with telepresence. Ours went from $750 million a year to $350 million a year, sustainable. And we've actually, under the economic challenges, dropped it to $240 [million]—and it will never come back past $350 [million]. So our average expenditure per employee has been probably 65 percent lower than what it was at the start of this and will not come back.

All businesses will have this. It doesn't matter if you're a bank doing the similar scenario—with your security cameras and telepresence in the store to give unique capabilities to connecting the regular customers or new customers, what they want to do—or a retail store, or manufacturing, or a high-tech company.

Management lessons: Remodeling for collaboration

John Chambers: I always believe you deal with the world the way it is, not the way you wish it was. And what has changed is, the segment of the industry I've moved in has moved from being "plumbers." And I'm proud to be a plumber. First, it's a very honorable profession. Secondly, you make a lot of money doing plumbing on the Internet.

But the future's about, how do you add intelligence to that plumbing? And how do you do it architecturally from a technology point of view, going from any device to any content over any combination of networks and data, voice, video? Sounds simple; really complex with security and predictability. But how do you change the business process?

So we'll move from a company that sold plumbing and routers and technology, which customers kind of integrated, to a company that, if we do our job right, will be the most trusted business adviser as well as the most trusted technology adviser to the top companies in the world, be they enterprise or service providers, to the top governments, et cetera. That is the biggest transition. Now, the challenge is, you couldn't do that without different organization structures.

And I'm a command-and-control guy. It clearly has worked well for me. I say, turn right, 66,600 people turn right. But that's not the future. The future's going to be all around collaboration and teamwork, with a structured process behind it. And that's the key. You can't move fast without a replicable process. So it's about speed, combined with technology enablement, combined with a replicable process.

The *Quarterly*: *Traditional management theory would say, "Cisco, John, you have too many priorities, way too many. Pick a few, prioritize. How you're going to run a company without a straightforward organizational structure. This doesn't make any sense." How do you respond to that?*

John Chambers: Well, first, they could be right. Any time you take yourself too seriously and think that critics may not be right, then you're already in trouble. However, we started modeling this in 2001. That's when we moved to social communities with a great deal of discipline, which we called councils, $10 billion opportunities; boards, $1 billion opportunities; working groups on what you do on a transaction or how you enable those.

And, over the last eight years, we've done things right and we've made some mistakes and we've adjusted, including the management team and what are their skill sets and how they're rewarded. And then we put behind it a very disciplined vision five to ten years out of what you want it to look like; what your true, sustainable differentiation [is, which] you've got to implement in two to four years; and then, execution-wise, what are you going to do the next 12 to 18 months? So you're able to play a portfolio, like I just said, with tremendous speed and efficiency, where I might be involved in only two to three of the councils and boards and working groups. Each of our key executives will do the same; and instead of 10 people running the company, with a very heavy leaning toward the command, [we have moved to a structure with] the top 500 people running it today.

The *Quarterly*: *But how does it actually work? These councils and boards, are they empowered? Do they make decisions?*

John Chambers: Well, they're empowered, but they have to know where they are. The classic question is, "Well, if I'm going to lead, I've got to have people reporting to me and I've got to control budget." And the answer is, "No" and "No"—because that's not what cross-functional leadership is about. Cross-functional leadership is about doing a replicable process with a business model that can be enabled by technology, and each of the functional groups being able to implement that. So whoever serves on each of these councils and boards and working groups, from each functional group, has to be able to speak for the whole group. Not go back and ask permission, but has to be able to speak for the group.

Secondly, they've got to understand the implications of their decisions across all the functions. That was a learning curve for us, because we developed our people in silos. And third, you select who goes on these councils and boards by the leaders of the group, which originally were my executive VPs and senior VPs. And all of a sudden people will try to be on every one, if they were the leader of the functional group. And it took about four councils and boards, and they couldn't keep up. So they had to delegate, they had to empower, they had to train. And it took us a while to change compensation, reward systems, but now it's a machine.

The *Quarterly*: *But it also sounds like a lot of meetings.*

John Chambers: Yes. Virtual, physical, and ongoing. It's to where my senior execs will probably spend 30 percent plus—not in meetings, because the definition of a meeting has changed—in collaborative sessions and execution sessions. And so, you are talking about how we spend our time being dramatically changed. Theoretical eight years ago; started to work about four years ago; replicated with tremendous speed today.

And for the first time, there was a tipping point with my customers in the last four months. What has occurred in the last 120 days is that leading-edge customers—I'm not talking 5 or 10, I'm talking 50 to 100—have said, "We understand this innovation business model. We understand how you're innovating on the organization structure, and we understand how you're using collaboration Web 2.0 to innovate on the new business models. And we think you're going to be able to do it, with all the appropriate caveats, across not just five areas but across several dozen."

The *Quarterly*: *Do you think this is a model that most other companies can also do and replicate?*

John Chambers: I think it is actually much more replicable than the command-and-control, top-down [approach] I did before.

The top-down that we did before was based upon really growing up within the company, being a part of taking it from $70 million to about $35 billion, being able to watch one product go to two, being through five economic downturns, developing the game book and the game-planning playbook for the approaches.

That is command and control, and it is tremendously dependant upon your top leaders. This is an organization structure that I think is built for the future and is much more built upon, "How do you gain the power of the human network to really move on decisions and directions?" Sounds like nice marketing, but most of our nice marketing usually has happened even though we might have been a little bit early or a little bit late. So I think, when we talk five years from now, this will be the future of business models.

Business in society: Public–private partnerships

The *Quarterly*: *Can you talk a little bit about what you see as the role of technology and businesses like yours working with city and national governments?*

John Chambers: Okay. I'm going to break it into two pieces. The first is what we see working with governments, in terms of traditional business and how do you really prepare for the future. And the second is more in corporate social responsibility and public–private partnerships, if you will, being, I think, a model for the future around collaboration.

So, to the first part, when you talk about the future, you can talk about smart, connected communities. Intelligent urbanization: 500 million people moving into cities of the future. Traditional cities: how do they evolve? What I call towns or small communities, and then all the way down to the rural environment.

Let's just deal with the first one. When you talk to President Lee [Myung-Bak], of South Korea, or Mayor Ahn [Sang-soo], who's the mayor of Inchon, which is really the economic city built outside of Seoul, they'll talk about how do you combine a structure with the direction of government; with a developer, really enlightened developer who knows where they're headed, how they're doing it; with a Cisco, to be able to say, how do you create perhaps as much as 200,000 sustainable, incremental jobs? How do you contribute as much as somewhere between a half a point to the whole point of GDP growth for all of South Korea? How do you combine an architecture—which addresses everything from green initiatives, smart electricity, productivity, government services such as education and health care—to tie them back to other government services, to intelligent transportation, smart buildings. How do you do this architecturally? And the answer is, intelligent plumbing, combined with a visionary government leader, combined with a developer who would build it in. And that's able to go all the way down through what's going on in China and the Middle East, et cetera, and it gives you speed of an ability to move into that area.

You could then transition and say, "Well, John, I didn't even know you knew what smart grids were." Well, maybe six months ago I wasn't even focused on it, but it's one of our top priorities. And yet here, in a series of positioning, using councils and boards and working groups, we've moved from a player often people didn't associate with smart grids to the top announcement that's been done—in my opinion, world to date—which was with GE's leadership and with Florida Power & Light's leadership, with local government, in terms of the city of Miami, [when they] announced Energy Smart Miami, where they're going to go in terms of, "How do you really use grid technology to make the cost of electricity over time cheaper for the employees?" To do it in a more environmentally friendly [way], to generate what they said is a 1,500-person job increase just in the one city, that could expand throughout the state and throughout the region? These organization structures allow for speed of change, which did not occur before, but they're often with groups that have not worked together.

Then, over the corporate social responsibility: your ability to make a difference. I started in the Middle East with King Abdullah of Jordan, an outgrowth of the World Economic Forum, where King Abdullah said, "John, I need partners to help me transition the country." When Katrina hit Louisiana and Mississippi: how do we transform the education system? We put $90 million into the area—purely corporate social responsibility—21st-century schools, wiring the areas. Terrible earthquake in Sichuan province: it wasn't just about giving back. It was, "How do you partner in a way that can change education and government?" We put $45 million into it. I've been back there twice physically, including just about three weeks ago, and once virtually.

It is those types of programs that, first, are the right thing. I've always believed those who are most successful owe an obligation to give back. But also—what I can now articulate—it's just plain, good business as well. Wherever we've been good on corporate social responsibility, we're almost always in the top ten places to work, which we are in every major country in the world. But also, the better we are in corporate social responsibility, it's amazing how it transfers over to business success.

On leadership: Adapting as a leader

The *Quarterly*: *As you think about your role as the leader—the CEO—of Cisco, what do you find to be the limiting factor?*

John Chambers: I'm the roadblock. In command and control, the enabler is the CEO. Where the industry's going, in every industry, will be about how do you change. How do you get outside your comfort zone? How do you basically catch your marks, transitions, and move on? Let's use the current economic downturn. When you have an economic downturn of this challenge, 20 to 40 percent of the companies will never get back to where they were before. Never.

And the key is, how do you focus that opportunity in a way that not only allows you to return to where you were before but to continue to grow? And so, part of it is the ability to paint a picture of what's possible. Part of it is also to manage inside our own minds and our hearts a combination of opportunity and [a sense of] if you don't move, you will get left behind.

The *Quarterly*: *But how do you motivate the employees? You're obviously very excited about the vision. It sounds like you've got leaders, and these boards and councils, that are also pretty excited about the vision.*

John Chambers: If they weren't excited about the vision, they probably aren't here any more. Everybody thinks about what you do as a direct result of the most recent quarter or the most recent year, including the stock market. When, with all appropriate consideration, the results that we got today—and they've been very good versus our peers—are what we did three to five years ago. The results we get three to five years out are what we made decisions on today. So the first thing you do is paint the picture of a vision where you want to go.

Secondly, you're realistic on your sustainable differentiation to get there—and that's visions, five to ten years; sustainable differentiation, two to four years. Now, what are you going to do in the next execution, next 12 to 18 months, to get there? You sell to your employees, and you've got to communicate, communicate, communicate. You do the same with your customers, shareholders, in a very transparent fashion. What's possible, why you're doing this, here are the milestones they ought to watch. By the time everybody agrees, or a majority agrees, it's too late. You either have already won or you have already lost.

So, it's having the courage, as leadership, to change and realize—back to my earlier comment—it's often the best leaders that are most resistant to change. And about 20 percent of my leaders didn't make the transition. They were command-and-control, wonderful leaders but wanted to stay command and control and couldn't transition over. And I had nothing against that. It's like a basketball player who can score 30 points a game. But if you're going to go into a real, unique style of team offense and team defense, if a person can't adjust, it's probably better that they get traded to another team. And so, all of us have to change. And the leader has to not only say the talk, she or he has got to walk the talk. Got to be the best example.

The *Quarterly*: *How do you change personally? Where do you get your ideas from? Where do you get your energy from? Where do you get these radical concepts from? How do you change?*

John Chambers: Well, it's unique in that one thing has not changed about Cisco in the almost 19 years I've been here: we are driven by our customers. Customers tell you about transitions, you must then drive it down through the organization. But, realizing the speed at which these transitions are coming at us, I have to change the organization structure. I have to change my style. I have to listen differently. I now attend telepresence sessions with industry analysts and probably 12 different locations that were in the same room. I listen to what they think we're doing well—listening, most important, to what they have to do differently.

How do you no longer listen to customers about a router or a switcher? I get excited about it, but most of your audience: not too excited. But how do you listen to them in a way that

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goes across routing and switching, data centers, home, mobile networks, security, sports and entertainment, video, all coming together in a logical fashion? And the answer is, you have to change to do that. And you've got to make it replicable. Because if you plant a thousand seeds and let a thousand seeds bloom, you get a weed field. You've got to build it in a structure that ties together with a common vision of where you're going to go.

It isn't just about speed or innovation. It's about operational excellence, combined with the capability to scale and to replicate. So I had to change. And I had to realize that I would either be part of the future success, or I would be the one that would slow us down. And you've got to get people around you, customers and twenty somethings, that really challenge you. Because when my team told me I ought to be focused on Web 2.0, as opposed to collaboration and telepresence, my answer was, "Why?" And they said, "Well, John, it's the future." And I said, "I don't necessarily agree." And then, they said, "Try." Including blogging—and video blogging. If you had told me I was going to do that, I would have said, "Not a chance." And yet, once I tried it a couple of times, I got very comfortable with it. And it's the way I now communicate. So you've got to, especially during major, violent economic or market disruptions, you've got to move fast. And you've got to be willing to listen and try new things. And I realize that you can be part of the solution, or you can be part of the problem.

If you think that you cannot be left behind, you're wrong—regardless of what position you're in. But also, if you adopt the philosophy of "I have no choice; I've just got to hunker down and survive," your survival rate goes down dramatically, and you will probably miss the biggest opportunity of your business career on what's occurring now. So it's the balancing. It's not a "or"; it's, how do you do the "and"? How do you do innovation and operation of execution? How do you behave financially, conservatively, during the toughest economic challenge we've seen in our lifetime, yet use this challenge in a way that repositions you for the future? And then, how do you use technology in ways that you've probably not thought of—that are easy to use, video based, network enabled—to change your business process and to change what you do for society? Sounds high level, but it's remarkably effective. ○