Cisco's three-part path to disruption

Excerpt based on material that originally appeared in the book *Goliath's Revenge*[1]

John Chambers, the iconic former CEO of Cisco, talked a lot about the "Power of And." He believed that leaders don't always get a choice in prioritizing their innovations—sometimes a company must excel in two seemingly contradictory areas simultaneously. With this principle in mind, Chambers worked to both care for the company's core business *and* chase bold innovations. Combined with a strategy for retaining talented individuals from Silicon Valley, these efforts helped Chambers transform Cisco from a niche technology player into a major disruptor in the tech sector.

Tending to its installed base

Cisco has long appreciated the incumbent's advantage of its installed base of customers, and it draws on that advantage not only to defend against digital disruption in its core switching and routing markets but also to stretch into market adjacencies with higher growth.

A decade ago, Cisco made substantial investments in developing sophisticated management tools for the installed base, such as Smart Net Total Care, which provides its customers with end-to-end network visibility. In parallel, Cisco digitized both its customer support and its network optimization service offerings. In its core business, Cisco has driven up its digital yield by shifting customer support from reactive services ("break-fix") to proactive ones ("fix-before-break"). To drive customer adoption in adjacent markets—such as its TelePresence remote collaboration and Internet of Everything applications—Cisco created new solutions that optimize customers' networks for these new workloads. These solutions are based on increasingly granular configuration parameters that are adjusted by Cisco's algorithms instead of customers' IT teams.

[1] Todd Hewlin and Scott Snyder, *Goliath's Revenge: How Established Companies Turn the Tables on Digital Disruptors* (Hoboken: Wiley, 2019).

Pursuing "Big I" innovations

"Big I" innovations are big ideas that go beyond a company's core business and adjacencies, often requiring courageous bets and substantial risk. Many leaders shy away from such bets, but during its most successful period of Big I innovation, Cisco had three executives—Chris White, Marthin De Beer, and Bill Ruh—who boldly pursued these innovations through an Emerging Solutions Council.

Each executive played a specific role. White was the head of a dedicated sales force focused on Cisco's Big I initiatives. De Beer was in charge of Cisco's in-house incubator—the Emerging Technology Group—where innovations such as TelePresence were developed into businesses. Ruh (who later became the CEO of GE Digital and headed GE's effort to develop the Industrial Internet[2]) led Cisco's advanced services business and had insight into how leading-edge customers were actually using the company's most innovative solutions. Together, the three developed Cisco's Big I initiatives and protected them from the organizational antibodies that would seek to kill them.

One crucial way they did so was by establishing "rules of the road." Those rules exempted Cisco's new Big I ventures for a limited time from legacy standard operating procedures and entrenched ways of working that could easily choke a fragile new venture. This move accelerated Cisco's pace of innovation, as intrapreneurs became energized by the opportunity to execute without the burden of excessive administrative friction.

Attracting and retaining venture general managers

Venture general managers (venture GMs) do not always exist in large, established companies because they possess an entrepreneur's mind-set and thrive on going against the grain. These leaders execute to a different creed: do anything needed to move an idea forward, ask for forgiveness not permission, come to work each day willing to be fired, and work in stealth mode. This leadership profile delivers on disruptive innovation, but it tends to be at odds with the profiles of typical corporate managers.

Chambers saw the value in venture GMs and would therefore often retain the CEOs from Silicon Valley start-ups acquired by Cisco because they frequently fit this profile. Chambers believed Cisco had an unlimited set of market adjacencies, and he leaned on these venture GMs to pursue them. To attract and retain venture GMs, Cisco used its Emerging Solutions Council and a parallel organizational model in which outside venture GMs could coexist and succeed alongside the company's core business.

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[2] The Industrial Internet refers to the integration of wireless networks, analytical tools, and big data with distributed systems.

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At one point, Cisco had more than 100 former CEOs working for the company. Cisco paid them handsomely to wait for the right opportunity and then deployed them to create a new market, expand an existing business, or run a newly acquired technology tuck-in.

These ex-CEOs all felt they worked for Chambers even if there were two or three layers of management between them. Chambers loaned them out for leadership roles across the company but kept in touch, mentored them, and recognized their efforts. This deep pool of venture GMs was a critical reason for Cisco's growth from its networking roots to entirely new areas such as data centers, online collaboration, and smart grids.

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With the right support and talent throughout the organization, Chambers was able to tend to the company's core while also exploring the innovations that helped the company become a disruptor. Under Chambers's leadership and the disruptor mentality, Cisco's sales grew from $1.2 billion in 1995 to nearly $50 billion in 2015,[3] and the company became the number-one or number-two provider in 16 of its 18 product lines.[4] ■

[3] Jon Swartz, "Silicon Valley legend John Chambers retires," *USA Today*, September 18, 2017, usatoday.com.

[4] "Success in the Startup World: Why Good Leadership Matters Most," Knowledge@Wharton, October 31, 2018, knowledge.wharton.upenn.edu.

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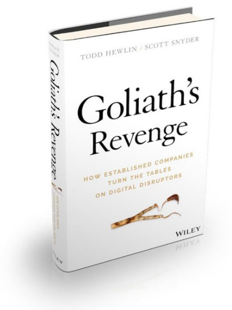

To learn more about *Goliath's Revenge*, by Heidrick Consulting Partner Scott Snyder and Todd Hewlin, go to https://www.heidrick.com/goliathsrevenge.

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