

Cisco Systems: DEVELOPING A HUMAN CAPITAL STRATEGY

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This article considers how organizational leaders can use human capital to gain competitive advantage.¹ It also draws on research in strategic implementation and organizational change to illustrate how organizations need to adjust to changed market conditions if they are to continue to grow and be successful over time.² Cisco is not simply investing in developing the next generation of leaders because it is a nice thing to do, but rather because Cisco's ability to execute its strategy in a vastly different competitive environment depends critically on developing leaders who have a different skill set and who embrace a different organizational culture than the previous generation.³ Cisco's experience illustrates the challenges leaders face as organizational life cycles evolve and require managers to develop new capabilities.⁴ The new competitive environment requires that Cisco learn to leverage scale and efficiency rather than unbridled growth. Although different in specifics, these are the challenges that almost all successful organizations will face in their evolution. The lessons from Cisco provide a template that other leaders can use in managing organizations through various stages of evolution and different types of growth.

"Cisco could be a case study of how a sullied high-flyer can use a slump not only to clean house, but also to build a better foundation."

—Peter Burrows, *Business Week*, November 24, 2003

"In the end, you might just have speed, talent, and branding. Those things may be the only differentiators."—John Chambers, *Business Week*, August 28, 2000

The late 1990s were a boom time for Silicon Valley companies and one of the stars was Cisco Systems—the leader in hardware and software technology for routing traffic on the Internet and on corporate networks. For a short time in early 2000, Cisco's market capitalization of \$550 billion made it the most

valuable company in the world. Cisco's growth during this period was breathtaking. Between 1995 and 2000, revenue grew at an average of 53 percent annually and the company employed more than 500 recruiters and regularly added 1,000 new employees each month. Between mid-1999 and late 2000, Cisco doubled the size of its workforce to more than 44,000 employees.

While the sheer logistics of this effort were significant, Cisco's deeper challenge was to acquire the management talent needed to handle this growth. One of Cisco's solutions was their acquisition strategy. From 1993 through 2000, Cisco acquired 70 companies. These acquisitions provided not only technology, but also served as a source of some of the management talent needed to run the company. Cisco not only liked to hire people through acquisitions, but also from their competitors. While the hyper-growth presented many challenges, gaining career opportunities within Cisco was not one of them. This "buy" approach to people development provided Cisco with talented people and employees with opportunities to prove their worth and to be promoted.

With this "buy" strategy, however, management development occurred through trial-by-fire, as people were given greater responsibilities at an unrelenting pace. Mohsen Moazami, Vice President of the Internet Business Solutions Group, described this period as one of "scaling and speed—doubling and

tripling and a run, run, run mentality.

No one had much focus on costs and ROI. Our job was just to get things done fast." Randy Pond, Senior Vice President of Operations, Processes, and Systems, who joined Cisco in 1993 as part of the Crescendo acquisition, acknowledged that prior to 2000, Cisco was "really pretty spotty at best in leadership development. It was left up to the individual." However, given Cisco's dominance, developing leadership talent was not a high priority. Inder Sidhu, Vice President

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of World Wide Sales Strategy, observed that selling during that period was like "picking diamonds up off the floor . . . there was so much opportunity that we were primarily focused on capturing it, rather than looking elegant doing it."

By the end of 2000, however, Cisco's financial performance had changed dramatically. For the first time in Cisco's history, revenue fell as the technology "boom" went "bust." By the summer of 2001, sales fell one-third from their level six months earlier and the stock price was down half from its peak, falling an unimaginable 68 percent in just 10 weeks. Moazami said: "It was as though someone came to Kraft Foods and said 'cheese causes cancer.'" Financial analysts and business journalists began to wonder if Cisco, without its ability to grow through acquisitions, could really continue to attract and retain people. Some worried about whether Cisco's culture, to which many people attributed Cisco's amazing growth in the 1990s, could survive since over half the employ-

EXHIBIT I Cisco Selected Executive Bios

John Chambers, CEO

John Chambers is President and CEO of Cisco Systems, the worldwide leader in networking for the Internet. Since January 1995, when he assumed this position, Chambers has grown the company from \$1.2 billion in annual revenues to its current run-rate of approximately \$18.9 billion.

Chambers has been lauded by government leaders and countless publications worldwide for his visionary strategy, his ability to drive an entrepreneurial culture, and his warm-hearted, straight-talking approach.

This past year, Chambers spearheaded several key global initiatives, including co-sponsorship of the Jordan Education Initiative, in partnership with his Majesty King Abdullah II of Jordan and the World Economic Forum. In November, Chambers was named "The Most Influential CEO" in telecommunications by *Institutional Investor* magazine and in October he was named "The Most Influential Person in Communications" by *Telecom Magazine*. He has received numerous other awards including the Smithsonian Lifetime Achievement award and the Ron Brown Award for Corporate Leadership.

He has served two American presidents; most currently as Vice Chairman of the President George Bush National Infrastructure Advisory Council (NIAC). On this committee, Chambers provides industry experience and leadership to help protect the critical infrastructure of the United States. He was appointed to this position by President Bush in November 2002. He previously served on President Bush's transition team as a member of his Education Committee and on former President Bill Clinton's Trade Policy Committee.

Chambers was voted the Most Powerful Person in Networking by *Network World* magazine and has received many other accolades, including the Distinguished Industry Leader Award from the IEEE and the My Boss is a Patriot award and the Above and Beyond award by the Employer Support of the Guard and Reserve (ESGR) for Cisco's exemplary treatment of employees deployed to military service. *Fortune* magazine has rated Cisco in the top 100 Best Places to Work for the last seven years and also awarded Cisco the Blue Ribbon for appearing on four additional lists, including America's Most Admired, Global Most Admired, *Fortune* 500, and Global 500. Cisco has consistently appeared in many other key industry "top" lists including the number one most powerful networking company by *Network World*, the Top 100 Best Places to Work for Working Mothers, by *Working Mother* magazine, the Top 15 Best Places to Work, by the *Sunday Times*, U.K., and the number one best employer in Australia.

In 2002, the National Investor Relations Institute, in conjunction with *Barron's* and *Investor Relations* magazines, recognized Chambers with their prestigious "Best Investor Relations by a CEO" award. Also in 2002, Chambers accepted the "Hall of Fame" award from Channel Reseller News for his success in helping channel partners build sustainable business models.

Chambers joined Cisco in 1991 as senior vice president, Worldwide Sales and Operations. Prior to joining Cisco, Chambers spent eight years at Wang Laboratories and six years with

IBM. Chambers holds a law degree and a bachelor of science/bachelor of arts degree in business from West Virginia University. He later received a masters of business administration degree in finance and management from Indiana University. He is married and has two adult children.

Kate DCamp, Senior Vice President, Human Resources

Kate DCamp leads a global team of HR professionals charged with accelerating Cisco's evolution to a development culture that builds a sustainable supply of leadership and talent from within.

Since beginning in her leadership role in Cisco in May 2000, Kate and her team have developed and implemented new leadership processes and programs to develop the next generation of leaders, transitioning Cisco from a company that brought in talent through direct hiring and an aggressive acquisition strategy. The team is also taking Cisco from a leader in e-HR to the next level by creating efficient and effective business processes that utilize the full power of intelligent networks and the Internet and increase the return on investment in talent.

Kate has more than 20 years of human resources and business experience. Before joining Cisco, Kate served as Global Leader of Compensation and Executive Programs for GE Capital where she designed and managed the executive, compensation, and recognition related programs for the company's 130,000 employees and 28 businesses.

Prior to GE, Kate held several other Human Resource leadership roles, including Director of Executive Programs at The Associated Group in Indianapolis, where she led executive development and developed the annual business operating plan and metrics. While at The Associated Group, Kate developed a new compensation strategy for Anthem and a new compensation and governance model for the Acordia Companies as part of the plan for an IPO of this subsidiary business on the New York Stock Exchange.

Mary Eckenrod, Vice President, World Wide Talent Management

Mary Eckenrod is currently Vice President, World Wide Talent, for Cisco Systems, Inc., which she joined in June 2001. She is focused on accelerating the identification, assessment, and development of Cisco's top leadership talent. She also leads the company's talent resourcing, executive education and staffing, learning and development, university relations and campus recruiting, and performance management initiatives.

Her previous experience includes 15 years at Rockwell International as Director of Global Human Resources and Organizational Development responsible for succession management, the Rockwell Leadership Institute, organizational development, global diversity, and employee development. She had similar responsibilities at Johnson Controls International. After completing a BS in Chemistry Education from the University of Wisconsin, she taught high school chemistry, physics, and algebra. Her Masters in Finance/Organizational Behavior and Doctoral coursework in Business Strategy are from the University of Wisconsin where she has also taught in the MBA program.

Eckenrod has been active professionally, including the Human Resource Planning Society (Executive Committee, Board of Directors, 2004 Conference Co-Chair, Midwest and California affiliates Board of Directors and national committees), SHRM (Wisconsin Chapter President, officer and board positions). She has also been on several not-for-profit boards including Dean's Advisory Boards at Marquette University and University of Wisconsin Business School. She is a frequent presenter at business conferences.

Randy Pond, Senior Vice President, Operations, Processes, and Systems

Randy Pond is the Senior Vice President of Operations, Processes, and Systems at Cisco Systems Incorporated. In this role, Pond oversees the organizations of Worldwide Manufacturing, Information Technology, Customer Service, Legal Affairs, Government Solutions, and Corporate Security Programs. Pond also serves as chair of Cisco's Business Process Operations Council and Business Oversight Board; two strategic executive councils within Cisco.

Pond joined Cisco in September 1993 through the acquisition of Crescendo Communications. In his ten years with the company, he has held numerous roles within Manufacturing, including his initial role as Director of Operations. In 1994, Pond assumed leadership of Cisco's Supply/Demand group, and later in 1994 was appointed Director of Cisco's worldwide manufacturing operations, responsible for planning, production operations, and distribution and logistics.

He was promoted to Vice President of Manufacturing in 1995, responsible for all aspects of manufacturing operations, including new product introduction, planning, procurement, production operations, and distribution and logistics. In January 2000, Pond was promoted to SVP of West Coast and Asia operations. From 2001 to August 2003, Pond became responsible for all of World Wide Manufacturing Operations, including product fulfillment and logistics.

Some of Pond's key accomplishments include overseeing Cisco's West Coast Operations by leading the implementation of Enterprise Resource Planning in manufacturing, establishing the consistency of process and metrics across manufacturing operations, and making customer fulfillment a strategic initiative.

Prior to joining Cisco, Pond held the positions of Vice President Finance, Chief Financial Officer and Vice President of Operations at Crescendo Communications, and VP of Manufacturing and VP of Finance at Versatec, Inc, a wholly owned subsidiary of Xerox Corporation. He has also served in various finance and operations positions at David Systems, Xerox Corporation, Schlumberger, and Arthur Andersen.

Pond is on the Board of Directors for The Children's Discovery Museum of San Jose and Northwestern University. He has a bachelor's degree in accounting and economics from Ball State University in Indiana.

Source: Cisco.

ees had been with the company less than 18 months. One journalist noted: “With workers from all its acquisitions roaming the halls, Cisco sometimes resembles a mini United Nations.”⁵ Another likened the culture to the bar scene from the movie, *Star Wars*.⁶

In the spring of 2001, Cisco had to take a staggering \$2.5 billion charge to write-down excess inventory and, for the first time in the company’s history, Cisco cut its staff by 8,500 employees, nearly a fifth of its workforce. For John Chambers, the President and CEO, this was a traumatic event. Earlier in his career at Wang, he’d had to layoff employees and, at that time, he vowed to never do it again. In describing this period, Chambers talked about how his parents defined a “learning experience” as “something that was not going to be fun and that was going to last a long time.” In his words, 2001 was a learning experience, but Chambers also claimed that, “it is tremendously important in building great companies.”⁷ After the downturn, Chambers began to talk more about Cisco being a company that could and should be considered to be “built to last.” The implication, from a people standpoint, was to begin to put in place the processes to “build” talent within Cisco and not just buy it through acquisitions. Mary Eckenrod, Vice President of Worldwide Talent Management, reflected that along with this notion of building talent came an increased focus on the concept of a “career” with Cisco.

The early initiatives around leadership development began in June when Kate DCamp was appointed Senior Vice President of Human Resources. With encouragement from the Board of Directors, DCamp began to take the early steps to identify top talent at the company. Eckenrod was hired in June 2001 with the explicit purpose of focusing on the identification and acceleration of leadership talent. DCamp and Eckenrod sharpened the focus to include the first review of Cisco’s leadership development strategy with the Cisco Board’s Compensation and Management Committee in early 2002. At the same time, DCamp asked Eckenrod to broaden her responsibilities to include the on-boarding of leadership talent from campus recruiting to executive-level searches.

Together, DCamp and Eckenrod began a multi-year process of building a new generation of Cisco leaders. Their challenge was to create integrated processes and solutions that would uniquely support Cisco’s culture and market. Given the pressure Cisco was facing both internally and externally, they knew they had to move quickly.

Cisco Background⁸

Early History

Cisco was founded in 1984 by Leonard Bosack and Sandy Lerner, husband and wife academics at Stanford University who invented a technology to link their separate computer systems to send e-mail to each other; however, their departments were on two different operating systems that did not “talk” to each other. To remedy the situation, they built a router or a “translator” that

acted like a mailroom, opening packets and distributing the data. The software allowed the data to be read by any kind of computer on the network, even across different operating systems. With venture funding from Don Valentine at Sequoia Capital and a new CEO in John Morgridge, Cisco went public in 1990.

Cisco began by offering high-end routers and competed primarily in the LAN (local area network) market, or the stand-alone boxes that scanned network traffic and sent it along to the proper address via the most-efficient, least-congested network path. Because Cisco's routers could connect to any kind of computer from IBM to Apple to Unix machines, it allowed Cisco to enter corporate networks earlier than its competitors. In fact, because demand was so high and customers continuously wanted more speed, Cisco raced just to keep up with customer demand. One of the key challenges for Cisco throughout its history was that, in the computer networking business, the average product lifecycle was estimated to be a mere 18 months on the hardware side and 6 months on the software side. On top of that, the industry rule-of-thumb was that each new product solution should offer twice the speed at the same or less cost. Cisco's rule of thumb was to improve performance threefold and reduce cost in half every generation—a five- to six-fold improvement every 24 to 36 months. Thus speed to market became one of the company's driving strategies.

In 1993, Cisco changed its strategy and began to diversify into other network markets and technologies due to the changing face of the global Internet and corporate Intranet worlds. At that time, a new high-powered technology appeared called switches. Switches were less sophisticated than routers, but they performed many of the functions of more expensive routers. Thus Cisco simply bought the companies that made the products its customers needed such as Kalpana and Crescendo, beginning the company's aggressive acquisition strategy to acquire technology and talent.

As an early player in this fast-growing industry, Cisco quickly became the leader in the data networking equipment market—the “plumbing” of the Internet. By 1997, approximately 80 percent of the large-scale routers that powered the Internet were made by Cisco and the company focused on routers, LAN switches, and wide-area network (WAN) switches.⁹ At that time, it also began expanding its product line to include other networking solutions, Internet appliances, and network management software. Despite the breadth of its product offerings, Cisco held the number one or number two positions in nearly every market in which it competed.

Strategy, Leadership, Core Values, and Cultural Principles

Cisco's mission was to “be the supplier of choice by leading all competitors in customer satisfaction, product leadership, market share, and profitability.” Its business purpose was: “To shape the future of global networking by creating unprecedented opportunities and value for our customers, employees, partners, and investors.” In Cisco's view, a global networked business was an enterprise of any size that strategically used information and communications to build a network of strong, interactive relationships with all its key constituencies. Cisco's

goal was to provide solutions to all of these global networked businesses and achieve market domination as quickly as possible.

Cisco's early success could be attributed to two things, according to Charles O'Reilly and Jeffrey Pfeffer, professors at the Stanford Graduate School of Business: "A more sophisticated explanation for Cisco's continued success has to do with two of its core values: the strong belief in having no technology religion, and listening carefully to the customer."¹⁰ Chambers called Cisco, "technology agnostics," meaning that the company made its own technology obsolete when the market and customer demands changed. This strategy differed from many technology companies, since others often took a more rigid approach towards one technology and imposed that approach onto customers. Instead, Cisco listened carefully to customer requests, monitored all technological advancements, and offered customers a range of options. However, having no technology religion and listening to the customer were not the only things driving Cisco's success, according to O'Reilly and Pfeffer: "How, for example, has Cisco been able to deliver this technology given the speed with which Internet solutions change? The answer to this, and to the mystery of Cisco's ability to grow rapidly, has to do with several other complementary values that also have permeated the company: the importance of cultural fit and a shared vision, speed, frugality, and the need to change continually."¹¹

Two highly respected CEOs have led Cisco: John Morgridge and his successor, John Chambers. Morgridge helped to shape Cisco's culture from day one. Morgridge remains the Chairman of the Board for Cisco. Chambers joined Cisco in 1991 and succeeded Morgridge in 1995. Chambers was well known for his fair, but ultra-competitive nature. He was a former IBM and Wang Laboratories marketing and sales veteran. He fostered Cisco's strong customer focus and was credited with continuing Cisco's success. He said: "I learned at both companies [IBM and Wang] that in high tech, if you don't stay ahead of trends, they'll destroy everything you work for and tragically disrupt the lives of your employees."¹² Although Chambers had an energetic style, he was often described as having the earnest energy of a country doctor—something both his parents were.¹³

John Morgridge, Chairman of Cisco, noted that frugality and customer advocacy were the two main themes emphasized in Cisco's culture. "The frugality was a result of how we were funded—we were funded by credit cards and a second mortgage. . . . that attribute has remained a cornerstone of our culture going forward even though we're a very large company now. The second aspect was the term coined by Sandy Lerner, called customer advocacy. She believed that it was important that someone within the company was an advocate for the customer in terms of his/her needs and requirements. And we've kept that as a principle tenet of how we deal with our customers on an ongoing business."¹⁴ Venture capitalist John Doerr said of Chambers: "John Chambers is the most customer-focused human being you will ever meet. He is relentless."¹⁵ In fact, Chambers often spent 30 hours a week or more meeting with customers.

Employees were constantly reminded of Cisco's values. Each carried a badge that had the company's mission and values printed on one side and the key culture principles on the other side. The company's culture was based on the principles of "open communication, empowerment, trust, integrity, and giving back to the community," while "Customer Success" drove the entire organization.

Historical "Buy" Strategy

Aggressive Acquisitions Strategy

It was in the late 1990s that Cisco developed a reputation for its extremely aggressive acquisition strategy. From 1993 through 2000, Cisco completed more than 70 acquisitions and spent more than \$18 billion acquiring nine companies in 1998 and 14 in 1999, an average of more than one acquisition per quarter over a five-year period. Cisco identified acquisition targets as engineering companies that were first or second in their respective markets. After an acquisition, Cisco incorporated the technology of the new company into its own and supplemented it with its own marketing and support expertise.

In many cases, the strategic acquisitions allowed Cisco to grow into several markets and to instantly become an important player. The danger, of course, was that the rapid acquisition strategy could potentially pose business process and operational challenges. Chambers said confidently, however: "We have it [acquisitions] down to a science. We could do 10 a month if we needed to."¹⁶ Many in the industry who analyzed the typical failures of mergers and acquisitions, pointed to Cisco's pre-acquisition analysis and its focus on cultural fit of people to be key success factors. Mike Volpi, Senior Vice President of the Routing Technology Group, was the SVP of business development and alliances while Cisco actively engaged in its acquisition strategy: "Cisco's strategy can be boiled down to five things. We look at a company's vision, its short-term success with customers, its long-term strategy, the chemistry of the people with ours, and its geographic proximity."¹⁷

Using its high stock price as currency, Cisco bought its way into the market to sell the super high-speed switches that customers such as AT&T and MCI needed to run their networks, thus competing with Lucent, Nortel, Siemens, and Alcatel. It also bought its way into the optical networking market (components for fiber optic communications equipment), dubbed the next high-speed frontier. Optical networking was predicted to replace the old-world copper-wire telecom infrastructure due to the increasing demands for bandwidth from Internet traffic. Mike Volpi clarified: "We still have R&D. About 70 percent of our products come internally."¹⁸

Recruiting through Acquisitions

Denise Peck, currently VP of marketing, elaborated on Cisco's fast-paced acquisitions culture for people: "When we were in hyper growth-mode, if you

needed resources, you'd just get them. Time to market was everything."¹⁹ Speed to market was important because Cisco's executives had made a decision to aggressively attempt to become the Microsoft and the IBM of networking. The top priority of Cisco HR in the 1990s was recruiting top talent to meet the needs of the company's fast growth. As Chambers said in 1997: "Cisco has an overall goal of getting the top 10 to 15 percent of people in our industry. Our philosophy is very simple—if you get the best people in the industry to fit into your culture and you motivate them properly, then you're going to be an industry leader."²⁰

Recruiting the "Passive Job Seeker"

Acquiring talent through acquisitions was simply one way of recruiting for Cisco. The company also targeted those it dubbed, "passive job seekers" or those who were happy and successful at the companies in which they currently worked. These employees were more difficult to lure, thus Cisco used creative strategies and tactics to recruit such employees. According to *Workforce*: "In an effort to lure star players from competitors, Cisco resorted to the sort of brash marketing tricks used to hawk "soft drinks and sneakers." To gain insight into the likes and dislikes of potential hires, the company held focus groups to learn what sorts of movies and web sites were favored by the best and brightest. Hoping for chance encounters with possible hires, recruiters frequented places such as garden shows and microbrewery festivals. The company even rigged its corporate web site to spot visitors from rival 3Com and greet them with a special page that said, 'Welcome to Cisco, would you like a job?'"²¹

Cisco also realized that its web site received the heaviest traffic between 10 a.m. and 2 p.m., meaning that people were looking for new jobs on company time. Thus it created a profile that prospective job seekers would fill out and matched the job seeker's skills and interest to job openings. A program called the "Friends Program" was created to actively recruit job seekers who clicked on a "make friends @ Cisco" button. Cisco employees called such active job seekers and talked about their lives at Cisco. In 1997, Cisco received 100 to 150 requests each week from applicants wishing to be introduced to a "friend@Cisco" and approximately a third of new hires came from the program. Chambers claimed that approximately 60 percent of the people who joined Cisco did so because they had a friend working there already. Employees who referred new hires received cash awards and became eligible for other prizes.

Sidhu commented on the recruiting imbalances, however: "Historically, Cisco did not invest in college hires. We liked to recruit people from competitors, but this both helped and hurt us because we ended up with a disproportionate number of high performers versus strong leaders. Historically, we had so much growth that if you worked at Cisco, performing well relative to your current role was all that mattered. This 'sink or swim' mentality permeated the company in general and leadership development specifically. This mentality was appropriate for the early developmental stage that Cisco was in at the time—when the primary strategic challenge was the development and delivery of new products

through our own sales force in the early 1990s, and then using indirect sales channels such as channel partners, value added resellers, and others after that.”

Retaining New Hires

After the aggressive tactics to hire employees either through acquisitions or other means, Cisco worked hard and creatively to retain its employees. This was one of the company’s key competitive advantages during the lucrative late 1990s, when everyone had a plethora of new opportunities at different companies. In fact, Cisco’s attrition rate was only 6.3 percent in 1999 and never went above 7.3 percent in the 1990s.²² These were remarkably low figures, especially during the heyday of the Internet where attrition rates went as high as 40 percent and averaged 30 percent industry-wide. In addition, by 1998, over 70 percent of the senior managers from acquired companies were still with Cisco.²³

Some of Cisco’s retention tactics included putting executives’ offices in the middle of floors so that regular employees could have the window areas. The company offered a state-of-the-art daycare center with “nanny cams” so that employees could check up on their children without leaving their desks. Chambers also personally supported efforts to help employees: “Once, when a Cisco worker’s home burned down, the human resources department asked Chambers for permission to advance funds to the person until an insurance claim came through. The CEO’s response: ‘Double it.’”²⁴ New hires were also assigned “buddies” who offered them personalized attention and an insider’s view into Cisco’s value and culture. The company made sure that it quickly indoctrinated Cisco’s values through new hire courses and quarterly “all hands” meetings. Cisco’s reward systems were aligned with the company’s strategy and values as well. All employees received stock options, with over 40 percent of all Cisco options in the hands of individual employees without managerial rank. Other rewards were smaller but still meaningful, such as a free dinner or cash bonuses of up to \$5000, that could be approved in 24 hours, simply for working hard. Supervisors had such reward budgets and were strongly encouraged to distribute them.

EXHIBIT 2. Cisco Retention Statistics

| FY | No. Hired | No. Still Here | Percent Still Here | Turnover |
|-----------|------------------|-----------------------|---------------------------|-----------------|
| 1991 | 281 | 126 | 45% | 7.0% |
| 1992 | 407 | 237 | 58% | 6.0% |
| 1993 | 631 | 408 | 65% | 5.9% |
| 1994 | 964 | 647 | 67% | 6.4% |
| 1995 | 1,880 | 1,448 | 77% | 6.0% |
| 1996 | 4,800 | 3,749 | 78% | 7.3% |
| 1997 | 3,586 | 3,097 | 86% | 7.0% |
| 1998 | 5,034 | 4,799 | 95% | 5.0% |
| 1999 | 7,689 | 7,219 | 95% | 6.3% |

Source: Cisco.

EXHIBIT 3. Cisco Selected Financial Data (Year Ending July) and Ratios

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|----------|----------|-----------|----------|----------|
| Net Sales | \$18,878 | \$18,915 | \$22,293 | \$18,928 | \$12,173 |
| Net Income (Loss) | \$3,578 | \$1,893 | \$(1,014) | \$2,668 | \$2,023 |
| Net Income (Loss) Per Share—Basic | \$0.50 | \$0.26 | \$(0.14) | \$0.39 | \$0.30 |
| Net Income (Loss) Per Share—Diluted | \$0.50 | \$0.25 | \$(0.14) | \$0.36 | \$0.29 |
| Cash and Cash Equivalents and Total Investments | \$20,652 | \$21,456 | \$18,517 | \$20,499 | \$10,214 |
| Total Assets | \$37,107 | \$37,795 | \$35,238 | \$32,870 | \$14,893 |

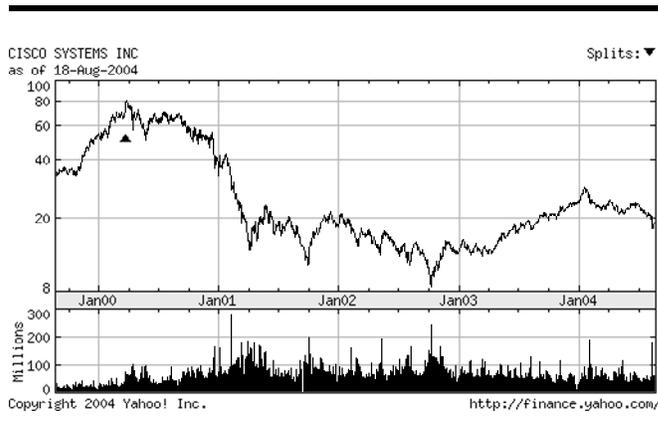
Source: Cisco.

Troubling Times

Cisco continued its rapid growth through the 1990s until everything came to a halt at the end of 2000 when the market crashed and demand for technology substantially decreased. Chambers called the time period, a “100-year flood scenario.” In early 2000, Chambers spoke of Cisco hitting \$50 billion in revenue and potentially reaching a market capitalization of \$1 trillion.²⁵ The company never even came near to such optimistic figures. Instead, Cisco went from a \$1.36 billion net income in the first quarter of fiscal year 2001 (up 70 percent from a year earlier) on sales of \$6.52 billion (up 66 percent from a year earlier) to a \$2.69 billion net loss for the third quarter of the same year, with charges of \$2.2 billion for writing down excess inventory. Revenue was \$4.73 billion, down 30 percent from the previous quarter and 4 percent year-over-year. In April

2001, the announcement to cut 8,500 jobs occurred.

Paul Sagawa of Sanford C. Bernstein & Co., an investment research firm, blamed Cisco for its overly optimistic forecasts: “Even while the stock market and bond market and fortunes of the economy were starting to look shaky in the fall, Cisco forged right ahead ordering parts with the expectation of 70 percent growth in fiscal Q1, which proved to be a vast overestimate.”²⁶ Chambers

EXHIBIT 4. Cisco Stock Price History

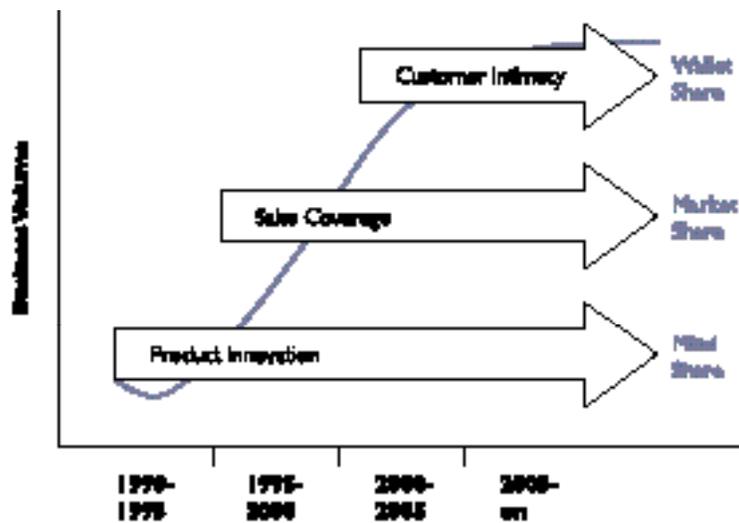
countered: "If a company has grown 30 to 50 percent, and on the higher end of that range for the past 10 years . . . if each time a hesitation occurs in the market, and the company pulls back on inventory and does not have an aggressive acquisition strategy, then you can't be the major company we are today. We take calculated risks and we're not going to change that. You will not always be right. No one bats 1,000."²⁷ Despite all the challenges, Chambers remained confident: "Our peers have shrunk by 43 percent, and we've grown by 2 percent. That's 45 points. It might be the most effective market share gain I've ever seen in a major industry in a 2-3 year period, never mind a one-year period. There will always be somebody who wants to be the next Cisco. We've had four generations of competitors, and we've won all four generations. The next Cisco will be Cisco."²⁸

Strategy, Structure, and Process Changes

Strategy: Responding to the Downturn

Chambers moved quickly once he realized his company was in a free fall, however. With extreme focus, he steered the company during the downturn by reaching out to others such as Jack Welch of GE and many other well-known CEOs. The company's overall strategic positioning remained the same. Chambers, who believed that external forces had led to the company's downfall, said: "We were doing a pretty good race, and then somebody changed the track. Everybody went off the road. That's what happened to our industry. We went off, too, but we did something different from anybody else. We analyzed whether our strategy was at fault, or if it was a change beyond our control. We determined that it was a change in the market."²⁹ Moreover, Chambers remained confident in Cisco's business strategy: "The network will evolve rapidly, and Cisco is uniquely positioned as the only company that can really evolve with the necessary speed. We have moved from a best-in-breed mentality, to an end-to-end architecture, to a network of networks, to intelligence in the network. Now we'll move to making the network the key platform of delivery of applications . . . everything goes into the network. It's not just data, voice, and video, and not just storage or telephony, but the whole concept of processing, data architecture, and implementation. I believe the network will become the platform for the future."³⁰

Despite Chambers' assertion that the company's overall strategy and strategic positioning remained the same, employees pointed out that Cisco began to develop a different business strategy to leverage the opportunities and constraints of a post-boom, more mature organization. According to Inder Sidhu, the overall strategy of the company shifted and needed to continue shifting from one that focused on "picking low hanging fruit" and focusing on box sales and revenue to more of a "customer-driven strategy," a focus on "catching and leveraging market transitions," and "developing a culture of stretch goals and thinking out of the box." Sidhu illustrated this by drawing a figure (see Figure 1) on his white board, describing Cisco's transition from getting the brand established (driving mind share) to sales coverage (driving market share) to the current

FIGURE I

need to grow revenues through customer intimacy (driving wallet share). “The existing challenge is to provide customers with great products, great service, and solutions that are tailored to their needs. In terms of human resource requirements, this market requires that Cisco attract, motivate, and retain great technical, business, and leadership talent and to develop these people over the course of their careers.” Under the old regime, Sidhu observed that what Cisco needed was great technology. In the new environment, sales are also based on Cisco’s ability to comprehensively solve their customer’s technology-based business problems. This, he stated, required a stable, relationship-based sales process as well.

Randy Pond elaborated on Cisco’s new strategy for the future, noting that it needed to include: a migration from a product-oriented organization into a systems-and-solutions organization; a drive to move down the food chain by purchasing Linksys,³¹ a low-end consumer-level product; and driving productivity and efficiency through an increased focus on processes (for example, getting operating expenses below 35 percent).³² In Pond’s view, this boiled down to two key issues: driving productivity through processes like six sigma; and ensuring cross-functional alignment. Pond viewed leadership development as a “great facilitator of this,” but also worried about confusing management training with developing the dynamic capabilities needed to meet Cisco’s competitive challenges.

Moreover, as an immediate response to the financial downturn, Cisco laid off employees. Chambers cut his own salary to \$1 in order to save jobs and he visited the company’s outplacement center to boost employee morale. Chambers also gave back 2 million of the 6 million options he had been granted for the

period. The company gave six months' severance pay to the employees who were laid-off, contacted recruiters from other companies on their behalf, and helped employees who were foreign nationals to deal with immigration issues. Cisco treated such employees well in the hopes that these workers would return to Cisco when the company could hire them back. In fact, the company developed a creative program in which it agreed to pay employees one-third of their salary and continue their health benefits and stock-option grants if they agreed to work for a local charity or community organization. Approximately 80 employees accepted the offer.

All of these efforts to help its laid-off employees led to continued employee satisfaction and high marks from industry rating systems. In 2001, the company won third place on *Fortune's* list of the 100 best companies to work for in America (based on confidential interviews with employees) and by 2003, the company remained high on the list at 24th place, despite its layoffs, restructuring, and a drop in the stock price.

In addition to employee layoffs and compensation changes, Cisco reorganized in 2001. The company integrated routing and most of switching organizationally and began focusing more intensively on emerging markets. Chambers said: "Now we can share ideas from high-end routing with mid-level and low-end routing."³³ The idea was that marketers and engineers who had targeted different kinds of customers in the past would begin to work together. The changes, Chambers said, would eliminate the problem of having separate teams working on similar products or ideas. That, in turn, would help the company pitch a broad range of products to customers. "The customers were the ones saying, "Your products are overlapping. We'd like to see a better road map," he said.³⁴

Structure and Process Changes: Productivity and Cross-Functional Alignment

After the financial challenges of 2000, Chambers determined that Cisco needed to focus on productivity and cross-functional alignment. According to *The Wall Street Journal*: "The old Cisco stressed increased revenue; the new Cisco demands profits. The old Cisco favored speed and internal competition; the new Cisco emphasizes deliberation and teamwork. The old Cisco devoured start-ups and raced to build niche products; the new Cisco wants to create fewer, more-versatile products internally. The old Cisco tried to do everything; the new Cisco is trying to figure out what not to do."³⁵

Internal assessments echoed such external perspectives. Company presentations stated that the old Cisco focused on growth and acquisitions, while the revised Cisco would focus on productivity and profitability. The old Cisco focused on entrepreneurialism with quick local development, while the revised Cisco would focus on senior leadership alignment on strategic direction. Thus productivity through process and cross-functional alignment were two big issues Cisco would begin to focus on after 2000. Certain elements of the old culture

remained stronger than ever, such as focusing on customers and customer success.

Pond elaborated on the company's inefficiencies: "Cisco is suffering from 'DAN'—denial, arrogance, and nostalgia. We are truly dysfunctional. For example, I discovered 146 separate and uncoordinated quality efforts underway, 44 efforts focusing on the entitlement mentality, 16 investigating grey market problems, and 216 unique tracking tools in the company, all web-enabled. All of these were being done in the Cisco spirit of getting the job done, but we need better cross-function alignment."³⁶ Similarly, before the economic downturn, Cisco's 13,000 engineers who designed Cisco's products had 44 largely autonomous teams that worked on often-overlapping and sometimes competing projects. According to *The Wall Street Journal*: "Some groups built products for a narrow set of customers, such as cable television operators. Other teams built similar products for telephone companies. When Cisco fell behind rivals technologically, it would buy start-ups, even if an internal group was working on the same idea. Each team independently chose the components for its products, and frequently wrote its own software. By the summer of 2001, Cisco had eight different groups developing technology for transmitting telephone calls over computer networks."³⁷ In August 2001, Chambers consolidated the engineering group and focused on standardization and versatility. "We've rationalized the sins of the past seven years," said Bill Jennings, a chip designer at Cisco. "People are beginning to appreciate the value of sharing."³⁸

Chambers identified how Cisco planned to increase efficiencies: "This will mean dramatic changes in our one-year initiatives. We need to make cross-functional teamwork work effectively in our major market segments. We need to focus on taking the six areas of billion-dollar-plus opportunity and expanding them to \$12 billion. We've got to be world-class in coming down the price/performance curve, passing our improved profit contribution through to our customers. We need to evolve our skills in a market that's going to move with tremendous speed, including 360-degree feedback for all managers and employees. And we need to really take on quality in systems and network architecture."³⁹

A New "Build" HR Strategy: Developing Internal Talent

To support the new focus on productivity and cross-functional alignment, as well as the new strategic imperatives, Cisco's leaders felt the need to change from a "buy" talent strategy to a "build" talent strategy. The old Cisco focused on external recruitment and employee growth through acquisitions as a priority, while the new Cisco would focus more on motivating and developing internal talent, particularly leaders. The old Cisco focused on tools that were built to scale, while the new Cisco would build tools to enhance productivity and profit contribution. DCamp said: "Building deep bench strength requires us to re-look at our guiding principles, build supportive programs and processes, and match our people with the learning and supportive programs and processes our busi-

ness offers. . . . We're returning to our roots—the original Cisco paradigm of rich development opportunities, but with the supporting programs and processes that make this possible in a large company. This requires a new mindset: sharing talent with others is more important than keeping a great team around you."⁴⁰ In a managers meeting, Chambers asked everyone, "How many of you think the company should add headcount this year?" No hands went up. Then he asked, "How many think your team needs more headcount?" Approximately 80 percent of the hands went up. "Therein lies the problem," he said. "We have to think more seamlessly and as an integrated whole."⁴¹

Sidhu explained further: "We could no longer play the acquisition game and ramp up our direct sales force. In the past, Cisco sold mainly to technical decision makers. Today, sales are made to business decision makers based on the ability of our products to solve a business, not simply a technical, problem. Today, customers require new and more complex products and technology that are often built into systems that require them to interface with other equipment and software, and are high quality and reliable. Building, selling, and servicing these solutions requires people who are broader and deeper in their knowledge of business and more sophisticated technologically. These skills come both from having the technical background and from knowing a customer's business. This also means that Cisco managers must be able to cross-functionally coordinate and mobilize the pieces of Cisco needed to solve complex customer problems."

Chambers explained: "We made progress [in continued employee development], but in our industry, I want the majority of us not to be in the same job—or even the same function—three to five years from now. I want us to create an environment of continuous learning and challenge, that will allow us to move from one business unit to another in engineering, or from sales to customer advocacy, or from financial to IT."⁴² In a company meeting, Chambers asked: "How many people think we're good at moving resources and retraining? (No hands). It's not even in our vocabulary. But we've got to get dramatically better at moving resources around the company. Our top leadership, most of them can't keep a job—I keep moving them around. We've got to learn how to retrain people effectively as part of our culture, to keep up with the market transitions."⁴³

In September 2001, Cisco took a first step to implement its "build" strategy; it created the Pathfinder software application that allowed managers to post openings for jobs within high-growth areas. Pathfinder's corresponding online database, I-Profiler, allowed employees to voluntarily enter their resumes for consideration. The profiles captured employees' work and educational experience, skills, and technical qualifications and detailed their career aspirations for development discussions with their managers. Line managers had access to each of their employees' profiles to better assess existing skills on their teams. Pathfinder was the first tool designed specifically to advertise job openings internally.

The Future and Challenges

By the end of 2003, financial analysts were skeptical that Cisco, without the ability to acquire talent, would be able to develop the bench strength needed to execute their new corporate strategy. There was even an acknowledgement of this challenge from within Cisco. Mike Campi, a Vice President of Human Resources, noted that at that time Cisco had “some pretty lousy leaders and a leadership development culture [was] not part of our DNA.” Some senior line managers were also concerned that what was needed wasn’t simply training but the ability to develop within senior managers the dynamic capabilities Cisco needed to transform itself and execute a completely new strategy.”

Reflecting on her charge, Eckenrod acknowledged the daunting challenges she faced. Her predecessor put it bluntly; saying that if she tried to develop a leadership curriculum, “You’ll never survive.” Others in HR echoed this, noting that “a corporate training program won’t happen.” However, given the dire straits Cisco was in, the Board was supportive of the effort to develop the next generation of Cisco leaders. Eckenrod understood that what Cisco needed was not simply a conventional executive development program but an integrated HR effort that could build global talent, ensure the transition of the existing leaders, and provide people with the skills needed to change over their careers. Without a credible effort, Eckenrod knew that as the economy and Silicon Valley turned around, it would be difficult for Cisco to retain employees and to grow again. She also knew that she would have to overcome a great deal of skepticism and disagreement in Cisco’s culture about exactly what leadership development entailed.

For Eckenrod, this presented two significant challenges. First, how would Cisco identify who the new leaders should be? The key questions were, what should a plan for identifying leaders look like, and what would it take to implement it successfully? Second, once identified, what could be done to give senior Cisco executives tools and frameworks to help them solve Cisco’s new challenges?

Developing a Human Capital Strategy

“People at Cisco are starting to value management as a practice and skill—and not just as a default.”

—Mary Eckenrod, Vice President of Worldwide Talent Management

Between 2001 and 2004, Cisco had rebounded and was once again viewed positively by Wall Street. In the intervening three years, Cisco had laid off almost 10,000 employees, written down over \$2 billion in inventory, cut 20 percent of their product lines, and reduced their supplier base by 60 percent. These actions, and the recovering economy, had pushed their stock price up by more than 60 percent and, even though their revenues were below the peak of the bubble, Cisco’s net income was at an all time high. Over this period, Cisco stock outperformed that of Dell, Microsoft, HP, and IBM. At the end of 2003,

Cisco entered the low-end consumer home networking business by buying Linksys for \$500 million. Cisco was also becoming a major supplier of telecommunications equipment, an estimated \$750 billion market that they had not been in when the telecom crash ruined Lucent and Nortel.

In spite of these accomplishments, some skepticism remained about Cisco's future. Several industry experts doubted that Cisco equipment was reliable enough to meet rigorous telecom industry standards. Others, while acknowledging that Chambers and his team had accomplished a great deal in three years, still questioned his unbridled enthusiasm. One journalist wrote, "In a world where executives who under-promise and over-deliver are more in fashion, it may be a while before the rest of us are ready to join the party."⁴⁴

A key driver of the Cisco turnaround was their new human capital strategy. A company-wide team was chartered to develop a new approach to developing and leveraging Cisco talent. A central part of this was Chambers' evolving vision of a company-wide cross-functional effort to create a development culture executed through Cisco University. It was clear that Cisco University could not be like other corporate universities that were largely centralized training centers. "Cisco University is an initiative, not an organization. It is the way employees will prepare themselves for success in Cisco's future," commented Kate DCamp. Although the larger human capital strategy included a series of programs and leadership development approaches that were designed to further develop leaders at all levels of the company, the real key to the strategy was the University's ability to develop and promote five fundamental organizational capabilities: an agile workforce with knowledgeable employees who can move quickly to areas of highest need; a workforce that thrives on change; employees who understand customers and can deliver quality products and services; employees whose cross-functional experiences improve their productivity and enhance their business acumen; and people throughout the organization who have strong capabilities in process.

The Cisco University umbrella was a cornerstone of Cisco's effort to reconceptualize the development of human capital within Cisco in three distinct ways or the "3E Model": *experience* through assignments, on-the-job learning, and traditional learning; *exposure* developed through online learning, mentoring, shadowing, periodic forums, and talent reviews; and *education* through a series of customized and focused programs that included significant teaching and involvement of senior Cisco executives as well as outside faculty.⁴⁵ In this way, Cisco University was to be the focal point for all career management and development, with linkages to feedback, job opportunities, coaching, training, and mentoring. The entire process would be designed to be employee-driven.

Making this happen would require a five-year effort involving not only curriculum design, but extensive efforts to link the various elements to Cisco's business strategy—and to do this while recognizing that their markets were constantly changing.

Performance Management and Development

To support its “build” HR focus, DCamp challenged Eckenrod to adapt the formal assessment and evaluation process. The general performance evaluation process, originally a 6- to 12-page form (depending on how much an individual would write about their own performance), was shortened to two pages, promoting more manager-employee dialogue. Performance feedback from others working with the employee was built into the automated performance management form (ePM). In addition, other development processes were introduced, such as the Talent Assessment Process (TAP), Leadership 360-degree Development Feedback (LDF), and Leadership Review Process (succession management).

The general Performance Management and Development process for employees was the “ongoing process of aligning individuals’ goals with organizational initiatives, and then collecting and sharing feedback to continuously improve performance and support talent development.”⁴⁶ During the ongoing review process, there were regularly scheduled events that provided a time to formally assess performance and develop plans for the future. The first included the Annual Performance Review and Development Plan, which reviewed individual key accomplishments in support of business initiatives and planned the next cycle of performance and development goals and deliverables. The process began when a manager and employee had an initial kickoff discussion. The employee then drafted a Performance Review and Development Plan and submitted the form to his or her manager. The manager then solicited input from others, and, after doing so, completed the Review and Plan, discussed the document with the employee, and finalized the review (Exhibit 5). Eckenrod explained further: “Our ePM system is individually driven, meaning that one individual’s stretch goals might be different than another individual’s stretch goals.” In late 2003 through 2004, Cisco improved the ePM system to make the system more dynamic or “always open, always on.” As employees shifted positions, changed, or added initiatives, the new system allowed them to update their initiatives, thereby allowing employees to have more ongoing dialogue with their managers. When employees moved jobs, they could update their initiatives to make them more relevant to their new roles. Eckenrod said: “The goal is for every employee to have a feedback and development discussion once a year, but the better managers use it more frequently.” The ePM system was developed in 2000, but it was very “long and involved,” according to Eckenrod. “We simplified the ePM process in 2003 and connected it to the ‘G3 Model’ or the expectations of Cisco Leaders to grow the business, grow our team, and grow yourself.”

The second performance event was the Talent Assessment Process (TAP), launched in 2001, which evaluated an individual *relative* to workgroup peers on an expanded set of performance elements including individual achievement, versatility, productivity, alignment, and an organization-unique criterion. The TAP process was used to assess all employees at Cisco, both leaders and individual contributors. Eckenrod explained: “Unlike the ePM system, which looked at

EXHIBIT 5. e-Performance Management

Human Resources

e-Performance Management

Welcome to ePM. This system is designed to help you complete your performance review and development plan. Click on the following links for information: [Writing your review](#) [Performance Management & Development Process](#) [Examples](#) [FAQ](#) [Work Offline](#)

NEW To enable career discussions with your manager, complete your [Employee Profile](#). The Employee Profile application captures your professional information and it can be used for development discussions between you and your manager. Take the opportunity to complete your profile now.

Click [here](#) to view your Performance Reviews from previous years.

| | | |
|----------|--------------|----------------------------|
| Name: | EE No.: | Position: |
| Manager: | Review Date: | Status: In Progress |

Past Performance Period

Go To: [Responsibilities](#) [Accomplishments](#) [Development](#)

Next Performance Period

[Business Initiatives](#) [Individual Goals](#) [Development](#) [Overall](#)

Check this box to allow your manager to view your input prior to submittal.

REVIEW: Past Performance Period

Part I: Overall Responsibilities for the Past Performance Period [Learn More...](#)

Take this opportunity to tell your manager what your overall responsibilities have been for the past year -- not your accomplishments, but rather those contributions that generally characterize your role here at Cisco.

Overall Responsibilities (Optional)

Part II: Accomplishments for Past Performance Period [Learn More...](#)

- In the **Individual Goals** column, review the list of key individual goals for the past performance period, and modify or prioritize, as appropriate. If you did not complete a review last year, you will need to input your individual goals.
- In the **Results and How Achieved** column, please describe which of the [Expectations of Cisco Leaders](#) were essential to how you accomplished the results.
- In the **Status** column, indicate whether or not each goal was met.

| Delete | Individual Goals | Results and How Achieved | Status |
|--------------------------|------------------|--------------------------|--------|
| <input type="checkbox"/> | | | ▼ |

DELETE
 SAVE ALL
 ADD

Part III: Development for Past Performance Period [Learn More...](#)

- In the **Development Area** column, identify those areas in which you committed to developing in the past performance period.
- Use the **Activity** column to list courses, conferences, continuing education, or on-the-job development you completed during the past performance period. Where relevant, include date of completion.

| Delete | Development area | Activity |
|--------------------------|------------------|----------|
| <input type="checkbox"/> | | |
| <input type="checkbox"/> | | |

DELETE
 SAVE ALL
 ADD

Additional Development Notes (optional)

one's individual performance, the TAP system identified the top employees from a knowledge or leadership perspective with an intent to accelerate those individuals, as well as enabling dialogue about development needs for the rest of the population." Prior to the launch of TAP, Cisco "was challenged to identify its best people," according to Eckenrod, due to the company's "egalitarian culture." The TAP process drove salary, stock, and bonuses but was only indirectly linked to the general Performance Management and Development process. Eckenrod elaborated: "One's performance management rating would automatically populate in TAP, but managers could update that, if someone's performance had recently changed, for example. Thus, there wasn't always a one-to-one correlation between one's ePM rating and the TAP rating." The TAP process occurred twice per year in Q2 and Q4. DCamp explained: "The purpose of TAP is to focus on our best performers and make sure they're getting the feedback they need to grow."⁴⁷

In addition, in 2001, Cisco implemented a succession management process called the Leadership Review Process. The Leadership Review Process allowed the company to identify the top 20 percent of its leaders, assess their progress, and evaluate future opportunities. The process was ongoing with a rollup to the Board⁴⁸ on an annual basis. Eckenrod commented on the integration of ePM and the Leadership Review Process: "We have a more integrated process now where applications like the Leadership Review Process utilize parts of the ePM system. Employees now fill out their personal history in the ePM system, or what we call their eProfile, and the Leadership Review Process utilizes this information, along with their development plan from ePM. We'll have one set of employee experience and performance data that has a multiplicity of uses and will be integrated into multiple processes." The Leadership Review Process also integrated the G3 criteria.

Launched in the spring of 2002, the Leadership Development Feedback (LDF) was a customized 360-degree process specifically for managers. It was designed to provide Cisco managers with a feedback report from the people they worked with—their team, peers, manager, and others. The LDF process targeted managers with three or more direct reports and was manager-focused, while TAP focused on the entire employee population. LDF helped Cisco managers gain insight into their strengths and development needs so they could improve their leadership effectiveness. Leaders received feedback on a standard set of questions based on the G3 Model. Some ratings included: "creates opportunities for top talent to get exposure to senior leadership," "builds collaboration and partnerships within and outside of his/her group," "actively coaches employees to improve their performance," "places Cisco's success above personal gain," "treats employees with fairness and respect; role models Cisco's culture and values," "acts in the best interests of customers," and "builds leadership depth within Cisco." The report quantitatively compared the manager's response to various constituents such as the average, peers, direct reports, others, and manager. Respondents were also asked to answer qualitative questions such as, "what one or two things do you view as key strengths of this person that he/she

should continue to perform?” “What one or two things do you view as key developmental areas this person should address?” And “what feedback do you have on this person’s teamwork and collaboration skills, either within his/her team or across functions?”⁴⁹ The LDF process was launched with the company’s first volunteer, CEO John Chambers, who implemented it with the entire senior leadership team.

After several years of cutting-edge automated HR “tools,” Cisco’s focus began shifting in late 2003 to integrating processes and expanding its perspective on development. Cisco’s performance management process, ePM, was simplified to encourage more dialogue between the manager and employee about career aspirations and development. By July 2004, all Cisco businesses and functions had adopted relative employee assessment in their management reviews and TAP was no longer required as a formal process, but managers had internalized the need to make such relative comparisons. Instead, a broad company-wide Talent Review process, which allowed for discussion of emerging people and technology leaders from the individual contributor to manager levels was under development to replace the TAP system. Senior leadership strongly supported the need for fewer more simplified and integrated HR tools. Eckenrod firmly believed that “technology enables but should not take the place of manager-employee dialogue.”

Executive Leadership Development

Leadership development was slated to facilitate Cisco’s focus on productivity and cross-functional alignment. Randy Pond, Senior Vice President, Operations, Systems, and Processes said: “Leadership development prior to 2000 was spotty at best. It was mostly left up to the individual and third parties; for example, we sent some people to Harvard Business School. The economic downturn gave us the intellectual bandwidth to focus on leadership and not just the business. John Chambers decided that when we came out on the other side, we would come out as strong as possible.” Chambers explained the shift to a “development” culture during the 2002 quarterly meeting when he said: “We have to believe that it’s more important to be an influence leader, to be focused on the customer, and to work across functions effectively, than it is to be a superstar at one function.”⁵⁰ Pond agreed: “During the lull period, we had to drive productivity through process, adopt process as business skill, and align ourselves functionally.”

Thus, after the economic downturn Cisco’s leaders were expected to “grow the business, grow *our* team, and grow yourself,” adhering to the “Grow 3” model (“G3”). Elements of “grow the business” included customer success, focused on profitability/productivity, and business knowledge. Elements of “grow our team” included teamwork and collaboration, vision and alignment, leading change, and building talent. Finally, elements of “grow yourself” included integrity, judgment and perspective, continuous learning, communication and influence, and adaptability.

As noted, Cisco adopted the “3E Model” development framework in late 2002 and early 2003. The balance was 70 percent experience, 20 percent exposure, and 10 percent education. Education consisted of instructor-led courses, e-learning programs, and readings. Experience included on-the-job tasks and special projects, job changes and rotations, and special assignments. Finally, exposure included feedback, role models, visibility opportunities, coaching, and mentoring. Cisco regularly looked externally for such concepts as the 3E model: “Our job is to bring the outside in,” commented Eckenrod. “We base the “3E” percentages on external research that explains how people learn. This drives our belief that real people learn through experience, not just classroom training.”

Executive Coaching

In late 2002, Cisco’s HR group also launched “Executive Coaching.” The goal of Executive Coaching was to “accelerate development of high-potential directors and vice presidents based on the expectations of Cisco leaders.” The Executive Coaching model consisted of a coaching team that included the executive being coached, an external coach, the executive’s manager, and their HR leader. The manager and external coach partnered to help the executive maximize his or her strengths, identify gaps, and align development to those findings. The process involved determining if an executive would benefit from coaching, launching the process if appropriate, gathering assessment data on the executive, conducting coaching sessions, observing leadership behaviors, providing feedback, and measuring results. An external, global coaching partner was identified whose coaches used a common methodology, Cisco’s LDF 360-degree feedback data, and the G3 Leadership framework criteria.

Taking advantage of this coaching program, the information technology function initiated, with members of Eckenrod’s team, a customized leadership development effort that was called the “Learning Cohort Program.” It provided a mechanism for small groups of high-potential IT leaders (6 to 8) to work together on common developmental needs, utilizing a combination of internal and external coaches, a Cisco sponsor, and peer coaching. Cohort team members met monthly as a group that was facilitated by a Cisco mentor and external executive coach.

The Cisco Leadership Series

Since the fall of 2002, Eckenrod’s team along with over 50 Cisco executives had been involved in designing and launching four Cisco Leadership Series (CLS) programs to build the company’s “leadership bench strength.” Each program focused on specific levels of Cisco leaders at distinct career development learning opportunities. The Executive Leader Program (ELP) focused on Vice Presidents, the Strategic Leader Program (SLP) focused on Senior Directors, the Business Leader Program (BLP) focused on Directors and Senior Managers, and the Emerging Leader Program (EmLP) focused on early career managers (see Exhibit 6 for further details on each program). BLP and ELP were launched in the fall of 2002, while SLP and EmLP were added in 2003.

Eckenrod offered her perspective on the goals and design of the programs: "All four programs are more focused on development for the future rather than "training" for specific skills. The content is dynamic in that we regularly match faculty with executives so that we are reflecting current business challenges in the content. Cases and simulations are customized to simulate current and future challenges and opportunities." A team of faculty including academics, leadership development consultants (external and internal), and senior Cisco leaders, conducted the programs. Eckenrod's goal was for "the core design of the CLS to bring the external perspective in to our talent."

All participants of CLS had to be nominated by the Leadership Review Process by their business or functional area and had to be considered to have significant future growth opportunities within Cisco in order to attend one of the four sessions. More specifically, participants who attended CLS programs were nominated as part of their Leadership Review. As individuals were reviewed for management promotion, their CLS participation was one factor that was considered. Every program included participants from a mix of regions, functions, and businesses, and space was allotted proportionally to the number of managers in each business or function, with Engineering and Sales having the highest number of participants to date.

Chambers felt strongly about executive involvement being a critical component of the CLS. Eckenrod commented on the early challenges, however: "Initially we did struggle for executive involvement and sponsorship, but this changed quickly after the first one or two program offerings of ELP and BLP. Now, some of the executives meet with faculty regularly, some teach in one or more of the programs, some come and spend time in dialogue with the groups and finally, some executives are group mentors with participants." Further, each of the four programs had a designated executive sponsor who reviewed all of the program content and evaluations with the CLS staff regularly. Eckenrod stated that a few executives were extremely involved in the CLS: "In some cases, such as Randy Pond, the ELP executive sponsor and Brad Boston, Senior Vice President of Information Technology and sponsor of SLP, actually attend significant, if not all, portions of the programs to ensure strategic alignment and understand the challenges facing our top talent and gain exposure to faculty." The executive sponsors have included a Senior Vice President of Operations, Systems, and Processes for ELP, a Vice President of Corporate Positioning for SLP, a Senior Vice President of Marketing for BLP sponsor, and a Vice President of Finance for EmLP. These members plus a Senior Vice President of World Wide Field Operations made up the CLS advisory council.

Once Eckenrod secured executive participation in the CLS, however, other challenges emerged: "The first year's programs highlighted several consistent challenges, especially the need for a more clearly articulated strategy. None of our executive speakers articulated the company-wide strategic initiatives in the same way. This made it difficult to customize some of the curriculum with faculty, resulting in more generic discussions than we desired. However, with the involvement of our executive sponsors, John Chambers and his Senior team

EXHIBIT 6

Descriptions of the Cisco Leadership Programs

The Executive Leader Program (ELP)

ELP targeted high-performance Vice Presidents and accepted 35-40 participants for each session. The program objective was, “to drive sustainable competitive advantage through expanded global perspective and collaboration.”^a It consisted of a two-week program spread over a two-month period. One week was held in the U.S. and the other week was held in Europe. ELP participants typically had significant global responsibilities and roles that crossed business units. Faculty were brought in from top universities across the globe to facilitate the sessions, and senior Cisco executives facilitated key sections of the program to provide participants with a Cisco perspective. Topics included strategic global thinking and cross functional perspectives, building shared thinking around issues in key leadership areas, and exploring leadership challenges and dilemmas in complex global environments. Many of the ELP participants joined teams to address business-focused problems. By June 2004, ELP had been offered three times and included 98 participants.

The Strategic Leader Program (SLP)

SLP targeted senior directors and included 35-40 participants per session. The program objective was “to build agile, cross-functional leaders with strategic perspective.”^b It consisted of a three and one-half day residential program followed by two half-day virtual sessions over three months. The virtual sessions were led by Cisco senior executives and external business thought leaders. Participants also benefited from executive mentors. By July 2004, SLP had been offered three times to 105 senior directors.

responded with a much clearer strategy presented at the 2004 Strategic Leadership Offsite. The CLS participant feedback to senior management played a significant role in building the case for this increased clarity and provided insight on specific points of confusion.”

By June 2004, all four CLS programs had waiting lists and were oversubscribed. Moreover, John Chambers had directed all Senior Vice Presidents to “teach” in CLS programs. By 2004, the Cisco Board of Directors Compensation and Management Committee was briefed on CLS programs and goals, and a summary of CLS participation was included in John Chambers’ operations review.

Cisco University

The premise underlying Cisco University, launched in 2003, was to give Cisco the ability to develop versatile and adaptable employees, such as enabling an optics engineer to transition to a voice-over-internet-protocol engineer. The rationale was to create “knowledgeable employees who can move quickly to areas of highest need, [a] workforce that thrives on change.”⁵¹ It would also be

The Business Leader Program (BLP)

BLP targeted high-performance senior managers and directors. The program included 50 participants per 5-day session and was offered five times per fiscal year globally. BLP participants had responsibility for a single function, a single business unit, a single technology, one country, or a small, somewhat homogeneous, region. Faculty from the Haas School of Business at U.C. Berkeley facilitated these courses with Cisco executives brought in to apply the learning's to key Cisco issues. Courses covered topics such as global trends, strategy, finance, a business simulation module, leadership, and marketing. The program included a customized integrated business simulation on which participants worked in cross-functional teams. By July 2004 the program had been offered 13 times to 578 participants. Of these offerings the majority took place in the United States, but at least one session was offered in both Asia and Europe each year.

The Emerging Leader Program (EmLP)

EmLP targeted early career managers, admitting 30 participants per session. Its objective was "To maximize business impact through personal leadership, teamwork and collaboration, and people development."^c The program consisted of eight days delivered in two sessions over a three-month period at the regional level. By July 2004, EmLP had been offered 6 times and included 170 participants.

- a. Cisco Executive Leader Program document, 2003.
- b. Cisco Strategic Leader Program document, 2003.
- c. Cisco Emerging Leader Program document, 2003.

Source: Cisco.

a way of avoiding large-scale employee layoffs. Mike Campi, a new member of the HR team after over five years in manufacturing and supplier management at Cisco, said: "We need to anticipate market shifts and have the right skill sets to meet changed demands." Pond explained further: "Cisco University is the dynamic engine that creates and deploys a curriculum that avoids layoffs by retraining and redeploying people. We need dynamic capabilities and process innovation, not training. Cisco could simply lay off those that aren't core employees, but we don't want to do this." DCamp provided background: "We used to have 19 training organizations at Cisco, mostly focused on product, technical, and customer training. There was a lot of overlap. I/T had its own training organization, as did HR, Finance, etc. We started Cisco University to establish a common platform and access portal for all of our e-learning and development options. Eventually, the concept grew to become a single access point for employees to find out anything related to the 3E's."

Cisco University would be a learning network that would transform the way Cisco employees work and learn, creating a stimulating development environment to follow business opportunities.³² Cisco University was "an initiative, not an organization, a company-wide, cross-functional effort that embraces all

learning and development across Cisco [and is] the way employees will prepare themselves for success in Cisco's future."⁵³ Cisco University was not a place, but rather, learning could occur anywhere and anytime. It consisted of "network-enabled knowledge sharing [in which] employees are both learners and teachers." Cisco University also included traditional learning. It was envisioned to be a single focus for career development and management, "all career activities [would be] connected in one place; linkages to feedback, job opportunities, coaching, training, [and] mentoring."⁵⁴

The timeline for developing Cisco University spanned from 2003, when the Cisco University vision and strategy were developed, to FY 2004 when resources would be available to all employees including development planning and links to functional areas of focus, to FY 2005 when the core content for the 3E's would be in place to enable personalized career development, and finally to FY 2006 when Cisco University would be the global source for all employee career development planning and activities. Chambers' goal for Cisco University was to have 90 to 95 percent of educational content "e-enabled." Eckenrod commented: "The only company that has come close to this statistic is IBM. John Chambers drives for productivity improvement and envisions e-learning as an enabler of greater productivity. The challenges are whether Cisco can embrace learning in this manner. Technical content lends itself quite readily to e-learning, but the challenge will be in helping managers develop people management skills, with experience and exposure a complementary part of the learning foundation."

Perspectives on New Leadership Efforts

Mohsen Moazami, Vice President Internet Business Solutions Group, commented on the benefits of programs such as the Executive Leadership Program (ELP): "ELP was one of the most effective training programs I have been exposed to since my days at Stanford. It helped us hold intelligent conversations about strategy and its implications for Cisco. All graduates develop a common vocabulary that further facilitates internal communication. In addition, ELP is a new way of building an extensive internal network of friends. Prior to 2000, we were in the mode of high velocity and entrepreneurialism. After attending ELP, I learned how to slow down and to think things through. Cisco is definitely good at technical education and financial management education, but we're still less disciplined at leadership. We also rely too heavily on online tools. Leadership development needs more of a human touch. Our tendency is to focus on tools. The leadership development effort has gone from an entrepreneurial start-up to a bunch of HR deliverables. The effort might be too programmatic now."

Gary Bridge, Vice President and Global Lead of the Internet Business Solutions Group, said: "The content in ELP was useful, especially given that most people attending had never really thought about strategy at the higher level. During the session, we assessed competitors and what they were doing,

which was very helpful because we generally only focus on what Cisco could do better, not what competitors are doing.”

Mike Campi, a Vice President of Human Resources, emphasized the importance of developing a common vocabulary through such leadership programs: “Our existing leadership programs are helping us to develop a common vocabulary, terminology, and set of frameworks and tools. We’re not entirely there yet, but we’re heading in the right direction.”

Inder Sidhu, Vice President of Worldwide Strategy worried that Cisco’s focus on leadership development could change if Cisco’s growth took off again: “People who are stretched don’t have much time for development,” he said. Campi disagreed, however: “When the market picks up, our emphasis on leadership development will continue because of John [Chambers]. There’s both a strategic and cultural commitment to this.”

Next Steps: Performance Measurement

Eckenrod said: “Now that we have established many of the strategies and programs, development measurement is our next focus.” A section on career development was included in the company’s “Pulse Survey,” Cisco’s annual employee commitment and alignment survey. In terms of the Leadership Review Process, Eckenrod said: “We measure our progress by looking at whether the people who were discussed three years ago are being tracked and are moving successfully within the company. We’re looking at the mix of our leadership talent and the development of individuals in our pipeline. We’re getting better at this process because we see different people being identified and discussed now than were in our initial dialogue three years ago. We’re improving our assessment skills and are learning to focus on specific development outcomes.”

For the Cisco Leadership Series, especially for ELP and SLP, Eckenrod and her team surveyed prior participants to determine what tools, strategies, or tactics they have utilized in their working environment. “Many of our participants, for example, use an investment portfolio approach to assessing innovation in their work environment, which they learned in one of our sessions,” she said. All participants for the Cisco Leadership Series evaluated their experience in each course. Eckenrod also measured performance of the Cisco Leadership Series by the increased demand from employees and Cisco leadership involvement through design assistance of the programs. “We’re in the process of shifting the cost of these programs to the businesses because we are seeing the demand for our programs and we want the businesses to ‘own’ these programs,” she said.

The Future

In 2004, Chambers and the Board reflected on Cisco’s development progress since 2001. In that time period, a series of leadership programs and leadership development approaches were designed to further develop leaders

at all levels of the company, and work to integrate these efforts under the Cisco University umbrella was well underway. Eckenrod and DCamp knew that that they were heading in the right direction when, in October 2003, *CEO Magazine* ranked Cisco as number 13 on its “Top 20 Companies for Leaders” list. This recognition was a combined result of a number of the leadership initiatives that Cisco had launched since 2001.

Despite these key successes, however, Eckenrod and her team wondered if they had put in place the most effective leadership development strategy to meet Cisco’s continuing changing environment in the future. More specifically, Eckenrod wondered how Cisco’s leadership development strategy and process compared to those of other high-performing organizations, how Cisco’s senior executives should be involved in the future in the company’s leadership development efforts, how to measure the effectiveness of such efforts, and finally, she wondered whether these leadership development efforts would be sustainable in an economic upturn.

Notes

1. See, for example, Jeffrey Pfeffer, *The Human Equation: Building Profits by Putting People First* (Boston, MA: Harvard Business School Press, 1997).
2. Michael L. Tushman and Charles A. O’Reilly III, *Winning Through Innovation: A Practical Guide to Leading Organizational Change and Renewal* (Boston, MA: Harvard Business School Press, 2002).
3. See, for example, Jennifer A. Chatman and Sandra Eunyoung Cha, “Leading by Leveraging Culture,” *California Management Review*, 45/4 (Summer 2003): 20-34.
4. See, for example, Larry E. Greiner, “Evolution and Revolution as Organizations Grow,” *Harvard Business Review*, 76/3 (May/June 1998): 55-63.
5. John Shinal, “Can Volpi Make Cisco Sizzle Again?” *Business Week*, February 26, 2001.
6. *Business Week*, November 6, 2000.
7. George Anders, “After the Deluge,” *Fast Company* (July 2001).
8. Some of this section is quoted from Charles O’Reilly, “Cisco Systems: The Acquisition of Technology is the Acquisition of People,” *Stanford Graduate School of Business Case Study*, October 27, 1998, p. 2.
9. A hub’s role is simple—anything that comes in one port is sent out to the others. Every computer connected to the hub sees everything that every other computer on the hub sees. A switch does essentially what a hub does, but more efficiently. By paying attention to the traffic that comes across it, it can learn where particular addresses are. On busy networks, using switches versus hubs can make the network significantly faster.
10. Charles O’Reilly and Jeffrey Pfeffer, “Cisco Systems: Acquiring and Retaining Talent in Hypercompetitive Markets,” *Human Resource Planning* (January 2000), pp. 38-52.
11. *Ibid.*
12. O’Reilly, *op. cit.*, p. 10.
13. *Ibid.*
14. <http://newsroom.cisco.com/dlls/company_overview.html>.
15. Andy Serwer, “There’s Something About Cisco,” *Fortune*, May 15, 2000, pp. 114-138.
16. “Wanna Race? Chambers Has Built Cisco for Speed,” *Time*, February 5, 2001.
17. Henry Goldblatt, “Cisco’s Secrets,” *Fortune*, November 8, 1999, pp. 177-184.
18. Serwer, *op. cit.*
19. Scott Thurm, “After the Boom, Cisco Is Learning to Go Slow,” *The Wall Street Journal*, May 6, 2003.
20. Patricia Nakache, “Cisco’s Recruiting Edge,” *Fortune*, September 29, 1997, p. 275.
21. Patrick J. Kiger, “Cisco’s Homegrown Gamble,” *Workforce*, March 1, 2003, p. 28.
22. <http://www.ilogos.com/en/expertviews/articles/process/20010208_YL.html>.
23. O’Reilly, *op. cit.*, p. 7.

24. Kiger, op. cit.
25. Kevin Maney, "Chambers, Cisco Born Again," *USA Today*, January 21, 2004.
26. Wylie Wong and Ben Heskett, "Is Cisco Ready for a Turnaround," *Cnet.com*, April 17, 2001.
27. Ibid.
28. Cisco Company Meeting Summary, June 20, 2002.
29. Ibid.
30. Company Meeting, June 12, 2003.
31. At the end of 2003, Cisco acquired Linksys for \$500 million and moved into the consumer home networking market, a fast-growing market.
32. Interview with Randy Pond, January 22, 2004
33. Cisco Company Meeting Summary, June 20, 2002.
34. David R. Baker, "Cisco Reshuffles," *The San Francisco Chronicle*, August 24, 2001, p. B1.
35. Thurm, op. cit.
36. Randy Pond interview, January 22, 2004
37. Thurm, op. cit.
38. Ibid.
39. Company Meeting, June 12, 2003.
40. FY 2003 Strategic Leadership Offsite.
41. Cisco Company Meeting Summary, June 20, 2002.
42. Company Meeting, June 12, 2003.
43. Ibid.
44. Fred Vogelstein, "The Cisco Kid Rides Again," *Fortune*, July 26, 2004, p. 140.
45. Adapted by Cisco from Michael M. Lombardo and Robert W. Eichenger, *The Career Architect Development Planner*, 3rd edition (Minneapolis, MN: Lominger Limited, 2000), pp. v-vi, section entitled, "What Does the Research Say about Development?" Note that this source does not use the phrase "3Es" which is a term coined by Cisco.
46. Cisco WW Learning and Development Site.
47. Cisco Company Meeting Summary, June 20, 2002.
48. The Compensation and Management Committee, part of the company's Board of Directors, reviews compensation of the top 3 to 4 percent of the company.
49. Cisco Leadership Development Feedback form.
50. Cisco Company Meeting Summary, June 20, 2002.
51. Cisco University document, 2004
52. Cisco University document, 3-25-04.
53. Ibid.
54. Cisco University document, 2004.