Strategy and Leadership Magazine Interview

INNOVATING BY ‘‘DOING BOTH’’: CISCO MANAGES CONTRADICTIONS THAT DRIVE GROWTH AND PROFIT

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Inder Sidhu is Senior Vice President Strategy and Planning for Worldwide Operations at Cisco. A member of the company’s Operating Committee, he was co-leader of Cisco’s Emerging Countries Council and before that the Enterprise Business Council, which is responsible for Cisco’s corporate business, representing about half of the company’s total revenue. Previously a consultant with McKinsey & Company, he has an MBA from Wharton and a master’s degree in electrical engineering from University of Massachusetts, Amherst.

His new book about managing seemingly contradictory alternatives is Doing Both: How Cisco Captures Today’s Profit and Drives Tomorrow’s Growth *(FT Press, 2010).*

Strategy and Leadership’s *interviewer is Alistair Davidson, an* S&L *Contributing Editor and Partner of Silicon Valley-based firm Eclicktick Consulting, which provides business development and strategic consulting services (alistair@eclicktick.com)*

Strategy and Leadership: Why did you pick ‘‘Doing Both’’ as the title of your new book?

Inder Sidhu: ‘‘Doing Both’’ is the philosophy that Cisco has used for growing its business for many years. It started when our CEO, John Chambers had to assess new business initiatives but found teams making false trade-offs with the alternatives offered. For example, he found that often managers would present ideas that aimed for high growth but were not very profitable, or ideas that offered profitability but not high growth. Over the years, John and his management team, have consistently sent back such ideas and demanded that new businesses need to ‘‘Do Both!’’ And many times the sponsoring manager and his team found a way to rethink and revise the proposal so that it does offer the potential to achieve both goals.

Our experience at Cisco suggests that the concept of ‘’Doing Both’’ is relevant to a wide range of management decisions. We have learned to look at every opportunity not as a choice between conflicting goals, but rather a way of obtaining a multiplier effect by seeking and meeting two seemingly incompatible goals. In the book, I look at eight apparently conflicting challenges:

1. Managing sustaining and disruptive innovation so that they benefit each other.
2. Optimizing existing business models and simultaneously tackling new business models.
3. Ensuring optimization of existing businesses while reinventing businesses.
4. Creating satisfied customers and gratified business partners.
5. Succeeding in both established and emerging countries.

S&L: Let’s focus on the first challenge on your list – managing both sustaining and disruptive innovation. Cisco is self described as the largest functionally organized firm in the world – in other words, the company is managed with leadership organized primarily in functional areas such as engineering, marketing and sales rather than a more common matrix management. What does that mean in practice and how does that influence your innovation approach?

Sidhu: The real benefit of our organizational structure, I believe, is that we don’t run into the problem of turf fighting as much as other companies. Individual budgets are all part of one overall P&L. Innovation is driven by a Board or a Business Council consisting of cross functional managers empowered to move quickly. Boards are teams that usually address market with annual potential of $1 billion plus whereas a Business Council addresses a $10 billion plus annual opportunity within three to five years. Speed is critical for us. It can often take as little as 45 days for a new business idea to be presented and approved by the Cisco Board of Directors.

Boards and Business Councils have high visibility and positions on them are much sought-after. They are our way of harnessing the passion and enthusiasm of our most talented people. Unlike many matrixed organizations, where a product manager plays a weak coordinating role, Cisco delegates decision-making authority to the Board or Council.

Functional members on the board or council are empowered to make decisions on behalf of their organization so they can move quickly. Speed is the critical requirement, but not at the cost of quality. We need to have the ability to invent like a startup and then scale like a giant.

S&L: Does Cisco innovation occur inside or outside the Cisco organization?

Sidhu: Both. We have an internal group, Cisco Development Organization that does both. It's tasked with both sustaining and disruptive innovation development. Within this unit, we created an Emerging Technologies Group. Its job is exclusively to pursue disruptive ideas that can grow to a $1 billion market opportunity in five to seven years. We need to pursue both sustaining innovation for existing businesses and also disruptive innovation, but disruptive innovation is harder to do by those running the existing business. Separating the development of disruptive development from sustainable development allows Cisco to ''do both'' sustaining and disruptive innovation and do them well.

In addition, we pursue external innovations. We will often invest in a startup that can focus and develop its technology or business model outside of Cisco. For instance, sometimes our investment is structured so that we reincorporate the external startup into the Cisco organization. The reason for this approach historically, is that as we got larger and approached $10 billion in revenues, we worried that we would become too slow. So we started to make early stage investments in start-ups and technologies that might disrupt our business. If over time, they became successful or important, we could and have brought the technologies and teams back in to the business.

Managers in other industries might be surprised how many of these activities we pursue. Currently, we are have roughly 30 businesses adjacent to our traditional networking business –for example, TelePresence (videoconferencing), unified communications (phone systems), unified computing services for data centers, TV set top boxes via our Scientific Atlanta acquisition, and Linksys consumer-oriented digital living room products—and are all growth activities.

S&L: What else drives Cisco innovation?

Sidhu: We are driven by two major values: customers and market transitions. Some of our competitors have been committed to one particular technology or standard. Our view is that we will develop whatever works for the customer. More abstractly, our business strategy could be thought of as focused upon market transitions rather than evangelizing for a particular technology or standard.

Sidhu's new book about managing seemingly contradictory alternatives is Doing Both: How Cisco Captures Today's Profit and Drives Tomorrow's Growth.

***Photo by Alistair Davidson**.*

Another way of looking at us is that we have been fortunate as a company in that our roots as a company are platform and architectural. We have been fortunate that our area of expertise has revolved around the networking standard of IP (Internet Protocol). Over the past fifteen years many different product areas have evolved from being proprietary to becoming technologies that are transported via IP. Telephone calls, video and storage all used to be unique and proprietary technologies. Today, they can all run over the same IP network.

The investments we make in products that we develop often share this common transition to the IP platform.

Sun Microsystems used to say: ''The network is the computer.'' For Cisco, the ''network'' is the platform upon which we can build products, services and business models. And around this business strategy, we have developed our ecosystem of consultants, distributors and systems integrators whose role is critical to our success.

S&L: How does Cisco keep both its business partners and customers happy? Is Cisco committed to maintaining a value chain of researchers, vendors, distributors and business partners that interface with customers?

Sidhu: Our commitment to our partners goes back a long way. Back in 2001 in the aftermath of the Dot-Com collapse, many of our business partners were not sufficiently profitable. When we looked at our distributors and resellers, we eventually took the somewhat radical view that basing reseller discounts on volume sold was not rewarding them for their knowledge and value added. If our partners were developing a new geographic market or a new technology, it did not make sense to punish them for low volumes. We needed our partners to succeed. What customers actually needed was for our partners to make them successful. That required advanced certifications in our products for our partners, which would improve the quality of their service and their value added. It was a rather radical move to drop volume discounting, but it allowed us to achieve a number of seemingly contradictory benefits – increase the profitability of our partners when they provided more services that the customers valued.

S&L: In a knowledge-based business, the process of attracting, retaining and motivating superstars sometimes seems to conflict with the team creation and management culture that your Business Boards or Councils espouse? How do you motivate the innovation stars?

Sidhu: In lots of different ways. Innovators get to directly participate in decision making via the Boards and Councils. That provides them with fulfillment and also enhances their careers. There is a wide range of bonuses within a group. A superstar's bonus can be three times higher than lower performing employees might receive.

The other key prerequisite for making superstars and teams work together is a common innovation development language. We have a three-stage approach to innovation that is consistently shared throughout the organization: vision, strategy and execution:

- A vision, answers the question: ''What end result do we want to accomplish?'' It typically addresses a five-year span.

- Our strategy is described in terms of key attributes and actions that sustain Cisco's differentiation over multiple generations of products and services – the period covered is usually two to four years.
- Execution represents the activities and measures that Cisco will undertake and achieve over 12 to 18 months.

S&L: Often business planning seems to be an endless list of new tasks and goals that top management unrealistically expects will be implemented ever more quickly despite its allocation of fewer resources. How does Cisco's Doing Both formula address this contradiction?

Sidhu: Doing Both teaches an organization to look for ways to multiply its efforts – such as partnering with innovators from outside the firm. Our retail-oriented Linksys division is a good example. It has a very different business model than our traditional enterprise-oriented business. That is, our enterprise business requires a very high level of R&D, higher margins than the consumer business, the integration of complex technologies and it often has a consulting or service component. In contrast, Linksys products are sold through retail outlets, are lower margin and require less R&D. We handle these different business models by linking and leveraging our capabilities in different market segments.

A more traditional strategic analysis might suggest we should not risk our core enterprise business by pursuing the retail business. Or it might suggest that we don't have the skills to sell via retail. Acquiring Linksys and keeping it separate allowed us to target both markets.

S&L: Recently, Cisco launched a new set of products (Unified Computing Services, which combine networking and blade computing) for the corporate data center. By doing so, Cisco has now begun to compete with traditional distribution partners such as HP or IBM. And this is an unusual competitive situation for Cisco because you have entered the market as a late entrant with a combined computing/networking/storage architecture that allows you to claim a lower cost of total ownership. This contrasts with Cisco's history of electing to compete as the market leader. Is this a different business problem for Cisco or does Doing Both apply?

Sidhu: We were, of course, already selling networking into the data center so it's not so different. We have other product areas where we entered as a late entrant and are now the leading vendor. Unified communications (VoIP based telephony) is one example where we entered the traditional voice market in sixth position and lead in market share today. In the corporate market, the move away from ''big iron'' – mainframe computers – to tens of thousands of small computers mounted in racks in a data center represents a market transition, one of our criteria for major investment. The data center represents a market transition that builds on our networking strengths – our solution lowers networking costs and improves manageability of storage, computing and networking. In this case, the ‘‘doing both’’ concept means simultaneously improving performance and driving down the costs for customers – that’s not an uncommon strategy for penetrating a market.

The data center is a market Cisco can’t ignore. Large companies operate anywhere from thousands to over a million blade server computers and those machines need to be networked. Networking is far more important in these newer centers than in traditional data centers with stand alone servers and mainframes. Dynamically allocating computing and storage capacity, avoiding energy costs caused by low processor utilization, and minimizing software licensing costs all have dramatic effect upon the total cost of computing in the new data center environment. Many people don’t realize for example, that powering and cooling computers is more expensive than the cost of hardware purchase, so making sure you don’t have too much capacity on line has high ROI.

S&L: What can managers do to introduce and implement the concept of Doing Both in their organizations?

Sidhu: Doing Both means asking your organization to elevate its game. But asking is, by itself, not enough. Leaders need to change their organization – its approval processes, its reward systems, its innovation language and its expectations about the rate of change. For example, at Cisco, we emphasize both innovation and operational excellence, and the multiplier effect of each on the other.

Organizations also need to actively manage three sources of change in their organization: sustaining change that improves the existing business, disruptive change that needs to be developed outside the core business and externally sourced change that can be spun into the business.

Based upon our Cisco experience, *Doing Both* seems to work best in market transitions, when the nature of the market is changing or there is potential for new business models and disruptive approaches.

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