Cisco’s Controversial Organizational Model: Another Reorganization!

This case was written by Debapratim Purkayastha, IBS Hyderabad. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.
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Faced with increased criticism of the business performance of Cisco System, Inc (Cisco), John T. Chambers (Chambers), the company’s Chairman and CEO, introduced changes in Cisco’s strategy in the first half of 2011. He also pared down the controversial management structure at Cisco which had been the subject of much debate over the last few years.

As a leader in switches, routers, and other Internet technology, Cisco wanted to make the transition from being just a seller of these to being a company that was the most trusted business and technology adviser to its clients. For this, the company had reorganized its organizational structure in 2001, forming cross-functional teams to break free of the “silo culture” earlier prevalent in the company. Subsequently, it refined the model and came up with an organizational structure comprising councils, boards, and working groups. These committees working at different levels were cross-functional in nature, and according to the company, lent Cisco the speed, scale, flexibility, and rapid replication that were required for a large company to remain innovative in a rapidly changing industry.

While some industry observers felt that such a model would be effective, others felt that rather than promoting innovation, the structure would impede it. They wondered how a complex multilayered organizational model based on committees could speed up decision making. With Cisco’s sub-optimal performance in 2010 and the early part of 2011, Chambers’ detractors contended that both Cisco’s strategy and the organizational model had failed. Critics claimed that the strategy and the structure had confused employees, slowed down decision making, led to an exodus of key executives, and resulted in Cisco losing market share in its core businesses.

In April 2011, Chambers admitted in an internal memo that Cisco had lost its way with too many consumer acquisitions and that it would now make sure it “refocuses on the core.” The following month, Chambers announced a massive reorganization, a key aspect of which was that the number of internal councils was reduced from nine to three. While some analysts welcomed the move, others were worried that Chambers had not abolished the council and board structure altogether.

BACKGROUND NOTE

Cisco was founded by a group of computer scientists, who had together designed a software system named IOS (Internet Operating System), which could send streams of data from one computer to another. This software was loaded into a box containing microprocessors specially designed for routing, and sold as a package to businesses. The company was incorporated on December 10, 1984, and was headquartered at San Jose, California, USA. Cisco was a pioneer in developing innovative forms of customer support using new technology. In the 1990s, it was known as one of the “4 Horsemen of IT” (other three were: Microsoft Corporation, Intel Corporation, and Dell Computer).

Cisco had a product-focused structure, but in 1997, the company was organized around three specific lines of business to address two major new market opportunities: the service provider migration to Internet Protocol (IP) services and the adoption of IP products by small and medium-sized businesses through channel distribution. These three specific lines of business were
Enterprise (IT departments of corporations, government, and education), Service provider (telecommunications carriers and Internet service providers), and Commercial (small and medium size enterprises). (Refer to Exhibit I for a diagram of the organizational structure)

Chambers took over as CEO of Cisco in January 1995. Between May 1991 and December 1999, Cisco stock rose 33,991% from US$0.22 a share to US$75 at a compound annual growth rate of 97%. For a brief period in the 1990s, Cisco was the largest tech company in the world. It strategically acquired many of its competitors. It enjoyed a dominant position in the routers and switches markets and was generating close to US$10 billion annually in cash which placed Chambers in the league of leaders considered as celebrity CEOs. The dotcom bubble burst, and in December 2000, Cisco’s stock dropped to around US$17. In 2001, Cisco reported its first loss since becoming a public company. In August 2001, Cisco restructured the company to one core business with centralized engineering and marketing organizations in response to some major changes in the networking industry.

The new engineering organization focused on 11 new technology groups (Access; Aggregation; Cisco IOS. Technologies Division (ITD); Internet Switching and Services; Ethernet Access; Network Management Services; Core Routing; Optical; Storage; Voice; and, Wireless), while marketing focused on communicating Cisco’s technology differentiation. (Refer to Exhibit II for a diagram of the organizational structure)

With the Internet becoming the driver of all information globally in the 1990s and the first decade of the 2000s, trends evolved around it in the form of cloud computing, mobilization, social networking, virtualization, etc. Cisco was the leading company that offered networking gear that ran the Internet. It was the market leader in ethernet switches and overall router markets with market shares of nearly 70 percent and 50 percent respectively. It was the market share leader in all the segments in which it operated. Cisco’s market capitalization of US$109 billion in July 2009 was in multiples of the combined market capitalization of its top 11 competitors (US$19 billion). Cisco grew at a rapid pace in terms of both sales and profits, which the company attributed to its ability to capture market transitions (Refer to Exhibit III for Cisco’s selected financials and Exhibit IV for a break-up of Cisco’s net sales).

In addition to its business performance, Cisco had also made a name for itself for its HR practices, flat organizational structure, and customer-focused culture. According to Brian Schipper (Schipper), senior vice president, HR, at Cisco since October 2006, the organizational culture had a direct relationship to the company’s long-term success. Its flat and virtual organization helped Cisco expand into new market adjacencies both in terms of commercial and geographic markets.

CISCO’S STRATEGY IN THE NEW MILLENNIUM

As a leader in switches, routers, and other Internet technology, Cisco likened its business to that of a plumber, i.e., a plumber of the Internet. In the first decade of the new millennium, the industry Cisco operated in had changed drastically with the rapid pace of technological change and consolidation in the industry. The challenge before Cisco was how to change its business processes so as to cater to the changing market. According to Chambers, “The future’s about, how do you add intelligence to that plumbing? And how do you do it architecturally from a technology point of view, going from any device to any content over any combination of networks and data, voice, video? Sounds simple; really complex with security and predictability. But how do you change the business process?”

As networks matured, Cisco started focusing more on large firm data centers in a bid to become an overall information technology supplier. The company wanted to make the transition from being just a seller of routers, switches, and other technology to being a company that was the most trusted business and technology adviser to its clients. The company invested in building its software businesses as well as service collaborations. The company’s growth had been acquisition-led as Cisco. IT acquired software and hardware firms to develop the more integrated support system necessary to serve large corporate data centers. It also forayed into the Consumer space (Refer to Exhibit V for Cisco’s Acquisitions: 2000-2011).
With the onset of the economic downturn, the company decided to enter aggressively into new market adjacencies. According to Chambers, the growth at large companies tended to slow down as these companies did not move out of their primary markets quickly enough. Therefore, he focused on increasing the number of markets Cisco operated in. From just two in 2007, the number of new markets the company operated in increased to 30 by the end of 2009. Eventually, Cisco expected each new business to reach US$1 billion and to contribute to a significant part of its revenue. The company persisted with the strategy despite posting a 46 percent drop in quarterly profit for the quarter ending July 25, 2009. Chambers wanted to expand Cisco’s new businesses to 50 in the near term.\(^{13}\)

**UNIQUE MANAGEMENT STRUCTURE**

In order to achieve his objective of making Cisco a trusted business and technology adviser to its clients, Chambers realized that it would have to make a radical change in its management structure such that the company would be well-positioned to anticipate and capture market transitions. Cisco reorganized its management structure in 2001, forming cross-functional teams (see Exhibit VI for the Management Structure of Cisco). Subsequently, he refined the model and came up with a structure comprising councils, boards, and working groups. These committees working at different levels were cross-functional in nature, and according to the company, lent Cisco the speed, scale, flexibility, and rapid replication required for a large company to remain innovative in a rapidly changing industry. These committees were:

**WORKING GROUPS**

The employees at Cisco were grouped into small temporary groups (two to ten) that worked on individual projects. These working groups looked for opportunities in their respective areas and brought these to the boards. Their role was to execute specific near-term issues or targeted initiatives. The working group was accountable to boards, councils, or functions.

**BOARDS**

The boards were responsible for addressing issues affecting councils or functions. Their role was also to align cross-functional teams. The boards were accountable to the councils and/or functions. Each board had around 14 people on an average and included a senior vice president or a vice president. By mid-2009, 43 boards were reporting to the councils, while four boards reported directly to the operating committee.

**COUNCILS**

The councils were responsible for addressing cross-functional issues that materially affected Cisco (e.g., company productivity, segment strategies, etc.). Councils initially did not have their own budgets or performance targets. They championed investments and Go-to-Market priorities and aligned cross-functional resources. Each council comprised around 14 people on an average, two of whom were senior vice presidents or vice presidents, and reported to the operating committee.

**OPERATING COMMITTEE**

The operating committee comprised 15 top executives of the company including Chambers. The role of the Operating Committee was to establish the long-term corporate strategy and allocate corporate resources. It was accountable to the CEO.

Cisco’s various initiatives were managed by these different committees that were cross-functional, interdepartmental, or even international teams of executive. These executive “volunteers” worked on boards and councils, organizing themselves around major initiatives or specific product lines.\(^{14}\) Commenting on how this new approach worked, Chambers said, “Cross-functional leadership is about doing a replicable process with a business model that can be enabled by technology, and each of the functional groups being able to implement that. So whoever serves on each of these...
councils and boards and working groups, from each functional group, has to be able to speak for the whole group. Not go back and ask permission, but has to be able to speak for the group. Secondly, they’ve got to understand the implications of their decisions across all the functions… And third, you select who goes on these councils and boards by the leaders of the group, which originally were my executive VPs and senior VPs.” Each of the top executives of Cisco, including Chambers, was involved in multiple councils and boards.

IMPLEMENTING THE NEW STRUCTURE

Cisco had established its first three councils – Service Provider, Enterprise, and Commercial – by early 2002. Initially, the Operating Committee set the agenda for the councils, but by 2005, that role changed. In 2003, Cisco established the Business Process Operational Council, which unlike the first three councils, was not market focused but internally focused. In 2006, Cisco added two more councils – Consumer and Emerging Markets – around growing customer segments. Chambers then decided to establish boards that would report to the councils. The emphasis on decision making through councils and boards grew stronger in 2007. By 2009, the company was operating with 12 councils and 47 boards.

Chambers was inspired in part by Gary Hamel’s ideas about the need to democratize strategy and distribute leadership in order to stimulate innovation. “One of the traditional ways you define power in a big corporation is by the resources you control…. It’s one of the evil characteristics of corporations. If you control resources for your unilateral use, you can move away from the greater whole, even if you make good decisions. Now we believe it’s about learning to bring resources together to the table with groups,” explained Cisco’s vice president Ron Ricci (Ricci), who worked with Chambers to put into practice this new approach. Chambers contended that in these tougher times marked by an economic downturn, an organization such as Cisco could be very effective as this was ‘a distributed idea engine where leadership emerges organically, unfettered by a central command’.

Chambers, however, encountered significant resistance from within the company while setting up the new structure. According to him, before 2001, Cisco had had a “cowboy culture,” where strong personalities were rewarded for competing with each other to get the CEO’s approval. In the new structure, executives at Cisco began to be compensated on the basis of collective businesses performance, not on the individual performance of their units. How well they worked in teams also became an integral part of their performance reviews. Many of the executives were upset with the new compensation structure that was linked to teamwork. According to Chambers, around 20 percent of the Cisco executives left their jobs. He said that it was very difficult to explain to the employees why Cisco needed to change its approach, and the executives that left probably needed a “command-and-control environment.”

Chambers contended that the top-down approach to decision making had probably suited the company until 2001 as during that period, Cisco had had only one or two primary products; but in the new scenario, there was a need for a network of councils and boards who were empowered to launch new businesses. These executives spent around 30 percent of their time on various meetings – physically as well as virtually. Executives had access to an evolving set of Web 2.0 gadgets so that they could participate in a number of board and council meetings. Chambers himself communicated with employees through blogs and encouraged employees to blog. According to Chambers, Cisco’s utilization of discussion forums was 16 times higher in 2009 compared to 2008. With executives tied up in a number of boards and councils, they also realized that they were unable to keep up and had to rely on their teams. “So they had to delegate, they had to empower, they had to train. And it took us a while to change compensation, reward systems, but now it’s a machine,” said Chambers. By the end of 2008, the company was taking 70 percent of its decisions collaboratively, compared to just 10 percent in 2007.
According to Chambers, Cisco’s management structure supported his strategy of entering aggressively into new market adjacencies amidst the economic downturn. “[H]aving learned from 2001, we go into this one [economic downturn] with $34 billion in cash. We go into this structure with an innovative management structure that is more around empowering groups — with a very disciplined process behind it — and empowering groups in a way that allows them to move across into market adjacencies with a speed and efficiency and, hopefully, a much higher hit rate than we’ve ever been able to do.”

**INITIAL RESULTS**

Ricci claimed that the fiscal year 2008 saw “a tenfold increase in new projects” and that the company was also able to reduce operating expenses from about 38 percent at the height of the tech boom to between 35-36 percent. According to Chambers, this vindicated his decision to opt for the new management structure. The executives who had earlier jostled for resources and power were now working together with shared responsibility. They were now more focused on how to move more products into the market at a faster pace. “The boards and councils have been able to innovate with tremendous speed. Fifteen minutes and one week to get a [business] plan that used to take six months!” said Chambers. In January 2009, Chambers said that the company’s reorganization into councils and boards had helped Cisco realign over US$500 million of resources to new business opportunities and that the company was preparing to realign another US$500 million by October 2009. Cisco’s unique approach had helped it identify opportunities, the resources required, and the timeline.

Chambers contended that the new market opportunities that Cisco was tapping were also driving innovation in its core products. While the success of the new approach was difficult to quantify, the company gave numerous examples of how this had led to effective and speedy decision making. For instance, it said that the decision to acquire Web-conferencing company WebEx Communications, Inc. in 2007 was made in just eight days. Cisco entered into a partnership with another company in a single council meeting. According to Cisco’s CTO, Padmasree Warrior, this could have taken many meetings at other companies, but it “took the four of us on a phone call.”

According to another senior vice president Tony Bates, the new approach adopted by the company helped make effective decisions regarding the various acquisitions Cisco had made and later to effectively integrate these businesses. According to him, without the reorganization, “we’d still be thinking in a straight line, pure cowboy. It was an important shock to the system.” Executives also said that the company’s new approach had helped them cut down on travel and cut costs.

Chambers was able to reduce his own personal impact on the business and that of any other successor of his, analysts said. They felt that Cisco’s unique management structure could limit speculation over who would be the next CEO. According to Chambers, “We now have a whole pool of talent who can lead these working groups, like mini CEOs and COOs. We’re growing ideas, but we’re growing people as well… where I might have had two potential successors, I now have 500.”

**THE ORGANIZATION OF THE FUTURE?**

Some industry observers and analysts felt that Cisco’s management structure and its collaborative approach to decision making were effective – potentially the organization of the future. With around 67,000 employees, decentralizing authority and improving communication had become a necessity as it was practically impossible for the CEO to oversee every decision of the company. Having a structure such as this helped Cisco to be flexible and put the best employee available on a given project, they said. Since the teams were cross-functional in nature, these employees collaborated without being bound to their department. Some felt that this could also strengthen employee engagement as the employees were constantly challenged by their work.
Jay R. Galbraith, Galbraith Management Consultants, organization structures such as these worked in companies such as Cisco as collaborators were rewarded and the traditional command-and-controllers tended to leave. “These departures were positive changes, representing a victory of collaborators over the command and controllers,” he said.

According to Scott Anthony (Anthony), Managing Director of venture capital firm Innosight Ventures, the new organizational structure would help foster innovation at Cisco as it would also be capable of nurturing ideas that broke away from the norm or required coordination across disparate parts of an organization. “Traditional organizational forms are good at creating businesses that adhere to the rules and norms of the core business. But creating new growth often requires breaking those rules and norms in smart ways,” he said. Some analysts noted that apart from its strong cash position, Cisco’s management structure had also helped the company make some key acquisitions during the economic slowdown. They marveled at how Cisco had been able to enter so many new market adjacencies by coming out with new products and also through strategic acquisitions. Some analysts were particularly impressed with its agility as demonstrated by its acquisition of four companies in one quarter (between October 2009 and end of November 2009). They saw this as proof that Cisco’s committees were working.

THE OTHER VIEW

However, some analysts and ex-employees of Cisco were not happy with the new management structure. They felt that it had led to chaos and had slowed down decision making at times. Some sources close to the company also claimed that Cisco’s new management structure had at times resulted in a slowing down of its response to competitors’ moves. They pointed out that in late 2007, Cisco had been slow to react to Hewlett-Packard Company’s (HP) move to start a warranty for its switches that provided free upgrades and support. Critics argued that Cisco’s response had been delayed because decision making had become slower with it having to work through multiple committees. By the time Cisco matched HP’s promotion in April 2008, the company’s market share had fallen. Some organizational experts also felt that the departure of 20 percent of Cisco’s executives who could not reconcile themselves with the new organizational model was abnormally high.

The main criticism of Cisco’s new management structure was the number of committees it comprised. Some critics argued that committees were not ideal for decision making. Commenting on some downsides of Cisco’s management structure, Anthony said, “One concern about Cisco’s approach is the plethora of committees could decelerate decision making as it isn’t clear who really has the ‘final call’…. The larger the organization, the more managers spend time “working the hierarchy” instead of interacting with customers, suppliers, and key partners. This can cause companies to invest in the wrong ideas.”

Some people also saw an ulterior motive in Chambers’ push for this kind of management structure. Two former executives of the company claimed that this committee-based approach was well-suited to Chambers further consolidating power and delaying the emergence of a successor. A former Cisco employee said, “John very much likes being CEO of Cisco and it is not only what he has been doing for almost two decades, but I think it is the foundation of his political persona which I don’t think he wants to give up.” Some of them pointed out that any executive considered as a potential successor to Chambers seldom lasted long in the company. BusinessWeek quoted a former mid-level executive saying, “Being No. 2 at Cisco has not been a long-term assignment.”

CISCO’S RESPONSE

Chambers argued that the company had arrived at its management structure after giving a lot of thought to it, continuously refining it since it was introduced in 2001. For instance, in May 2009, he told executives that he did not want them to work on more than four or five committees after
some executives complained that they were overstretched. Chambers said that the new organization had served the company well. Moreover, Cisco had reached a position where instead of being led by 10 people heavily leaning on the CEO, it was being run by the top 500 people in the company.

Cisco rebuffed the critics’ charge that slow decision making by its committees had cost it market share. Reacting to criticism of its losing market share to HP, a spokesman of the company explained that changing the warranty was a complicated issue and that the new management structure allowed Cisco to get support from all parts of the company. Rebuffing criticism that Cisco’s management through a number of committees would lead to slower decision making, Keith Goodwin (Goodwin), a senior vice president at Cisco, said, “In my most recent Council meeting, we formulated our country strategy for the new year. The cross-functional nature of the Council enabled us to immediately determine the impact of engaging more deeply in certain countries on functions such as sales, marketing, and manufacturing, and we walked away from the table with a decision and a global strategy within a couple of hours. That doesn’t sound like slower decision making to me.”

Reacting to criticism that its executives spent around 30 percent of their time at meetings, Chambers said that the definition of meetings today had changed with the advent of Web 2.0 technologies. He also said that this structure based on boards and councils helped identify talent from across the company.

Chambers said that the company was planning to increase the number of its new businesses to 50. He was also planning to increase the number of people participating in the companies’ various committees from 750 (in August 2009) to around 3000. Chambers said, “I realize that many of you think we’ve stretched too far, and you may very well be right…. In many people’s opinion, [30 markets] is too many. In my opinion, it’s probably too few.” Analysts viewed Chamber’s growth strategy of entering around 30 different new businesses as very ambitious but as risky as well. They noted that the strategy was risky as Cisco was making powerful enemies. While earlier its competitors used to be companies such as Juniper Networks, Inc. and Alcatel-Lucent, it now had to contend with competitors as diverse as 3Com, Microsoft Corporation, HP, Dell, Inc., and IBM.

CISCO IN TROUBLE

By early 2011, criticism of Cisco’s strategy and its board and council structure had reached a crescendo. Some critics contended that Cisco had overstretched itself through its long history of acquisitions, transferring Cisco cash to other firms’ shareholders, hurting Cisco’s valuation, and leaving the company struggling. According to Thomson Reuters data, between 2000 and early 2011, the company had invested US$34 billion in acquisitions. It bought home routers, Web-based anti-virus software, web conferencing software, set-top boxes, and video cameras, but many of these businesses failed to deliver adequate returns. Moreover, these forays into the consumer space, video, telepresence, and collaboration distracted Cisco from its core networking business. The executives were distracted and its core businesses in routers and switches came under attack from competitors such as Juniper Networks, F5 Networks (FFIV), and Huawei.

Some critics felt that as Cisco became distracted by unnecessary bureaucracy due to the board and council structure, Cisco’s competition capitalized on companies rebuilding data centers and communications networks. Rivals such as HP too attacked Cisco’s core businesses. Analysts noted that the company was also losing market share in its core market. For instance, in 2007, Cisco held 53.2% of the edge-connector market, but it ended 2010 with just 42.2% of that market. In routers, Cisco’s share dropped to 55% in 2010 and it lost more than 10 percentage points of share in network-security hardware.
Cisco’s stock had been languishing since the dotcom bubble burst. Between 2001 and 2007, the stock lost half its value, falling to US$35.57 Continuing its slide, it was around US$17 as of May 2011, about where it had been in December 2000.58 Between May 2010 and May 2011, Cisco’s stock declined 34%, while those of 14 of its peers, including Juniper and Alcatel-Lucent, gained.59

In early 2011, Cisco announced its fourth consecutive quarter of shrinking gross margins.60 It reported year-over-year profit declines and disappointing guidance for upcoming quarters.61

Many investors and former employees claimed that the management structure had slowed decisions, fueled market-share losses, and led to an exodus of senior executives from Cisco. According to Robert Ackerman, founder of venture firm Allegis Capital, “They’ve got a culture that frustrates talented people…. They’ve got a lot of talented people feeling like they’re beating their head against the wall.”62 Some high-profile exits included Mike Volpi, then a senior vice president in charge of Cisco’s router and service-provider groups, and Charles Giancarlo, Cisco’s development chief, in 2007. Both were viewed by investors as potential successors to Chambers. In 2008, Jayshree Ullal, head of the data-center business at Cisco, left. In 2010, Tony Bates, a senior vice president who ran Cisco’s largest unit, exited to become CEO of Skype Technologies SA. They were reportedly frustrated with the council system as it left them without full control of units they were running.63 In early 2011, Debra Chrapaty (senior vice president of Cisco’s collaboration software group), Dan Scheinman (mergers and acquisitions chief), and Nawaf Bitar (a vice president in the security division) too departed from the company.

A CHANGE IN STRATEGY AND STRUCTURE

In April 2011, Chambers admitted in an internal memo that Cisco had lost its way with too many consumer acquisitions and that it would now make sure it “refocuses on the core.”64 He admitted that the company had disappointed investors, confused its employees, and lost credibility in the marketplace.65 In the memo, he wrote: “[O]ur strategy is sound… It is aspects of our operational execution that are not. We have been slow to make decisions, we have had surprises where we should not, and we have lost the accountability that has been a hallmark of our ability to execute consistently for our customers and our shareholders. That is unacceptable. And it is exactly what we will attack.”66 There were big changes planned for the Consumer unit. In April, the Flip video camera business that Cisco had acquired with Pure Digital in 2009 was shut down.

Chambers announced a massive reorganization in May 2011. Cisco said that it would focus on five priority areas: core – routing, switching, and services; collaboration; data center virtualization and cloud; video; and architectures for business transformation.67 The following were some of the changes introduced:

Cisco’s Worldwide Field Operations, led by Rob Lloyd (executive vice president), were organized into three regions: The Americas (including the US, Canada, and Latin America); Europe, the Middle East and Africa; and Asia Pacific/Japan/Greater China. According to Cisco, its business would still be managed by geographic regions, but there would be dedicated teams for large enterprise, public sector, commercial, small business, service providers, and Cisco partners.

Cisco Services would organize around key customer segments and delivery models in alignment with Field Operations. Gary Moore (Moore), who was named executive vice president and Cisco’s first COO in February 2011, would continue to lead Cisco Services.

Cisco Engineering would be led by Pankaj Patel (senior vice president, service provider engineering) and Padmasree Warrior (senior vice president/CTO), and would continue to report to Moore. The engineering organization would organize functionally to drive technology innovation, accountability, and alignment across all five company priority areas. Within engineering, a dedicated Emerging Business Group would focus on select early-phase businesses and would be led by Martin De Beer (senior vice president).
The internal councils were pared down. From nine, the councils were cut down to only three. Each council was to be led by two executives rather than five as in the past. These three councils were:

- **Enterprise council**: Led by Padmasree Warrior and Paul Mountford (senior vice president, sales)

- **Service provider council**: Led by Pankaj Patel and Nick Adamo (senior vice presidents, service provider sales).

- **Emerging countries council**: Led by Wim Elfrink (chief globalization officer) and Edzard Overbeek (president, Cisco Asia Pacific and Japan).

About the changes, Chambers said, “It’s time to simplify the way we execute our strategy, and today’s announcement is a key step forward.” It was decided that only the three customer-facing councils would have boards and the charter of all the remaining councils and boards would fall within the scope of functional organizations and hence would be absorbed into their respective functions. Moore explained that each council was led by two leaders empowered through their functional roles with investment capability. Council leaders were accountable for the execution within their respective functions, and across the company. They would make the decisions on go-to-market strategies and customer value propositions to these markets in the context of Cisco’s overall portfolio opportunities. Each council would determine which boards were needed to support execution and alignment. Moore said that the boards still had a critical role to play as they would focus on informing decisions and accelerating the execution of decisions through cross-functional alignment. “We are using the councils and board purely as how you connect the strategy to the execution which, by the way, you need architecturally,” said Chambers.

In July 2011, it was reported that Cisco was planning to fire 10,000 people, about 14% of the company’s workforce.

**TOO LITTLE, TOO LATE?**

Chambers was credited with championing much of Cisco’s rapid growth in the 1990s. Some analysts felt that he had been great at operating Cisco as long as he had been in a growth market, but had failed as customers turned to cloud computing and greater use of mobile telephony networks. His reorganizing efforts had also been of little benefit, they said. Critics felt that after the setbacks, Cisco needed a radically new strategy. Some experts felt that Cisco had achieved some early wins with its unique management structure but “rather than reorganize to move from a functional structure to solutions groups, or implement a matrix organization, Cisco created overlays on top of the same organization structure”. Critics of its structure said that they were vindicated by Cisco’s decision to pare down its council and board structure. However, some of them wondered whether Chambers’ restructuring efforts in 2011 was a case of too little, too late. Some felt that with this round of reorganization the councils and boards had been further embedded into the management structure. This could lead to further trouble for the company, they argued. However, there were others who contended that there was nothing wrong with the organizational model as council-like structures had been experimented with for a long time to coordinate a functional organization. They felt that Cisco’s change in strategy and structure could well be the steps taken by an agile organization faced with a dynamic environment. In the words of Chris Worley, co-author of *Management Reset: Organizing for Sustainable Effectiveness*, “The question is: are these the moves of a firm admitting defeat or the acts of an agile organization?”
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Exhibit I

Cisco’s Organizational Structure (1997)

- Executive Team
- R&D
- Enterprise Division
- Commercial Division
- Service Provider

CUSTOMER SERVICE
MANF / OPERATIONS
MARKETING / SALES
ENGINEERING

Compiled from various sources.

Exhibit II

Cisco’s Organizational Structure (August 2001)

- Executive Team
  - Centralized Marketing
  - Customer Service
  - Operations
  - Centralized Engineering
  - R&D

- Access
- Aggregation
- IOS. Technologies Division (ITD)
- Internet Switching and Services
- Ethernet Access
- Network Management Services
- Core Routing
- Optical
- Storage
- Voice
- Wireless

Compiled from various sources.
### Exhibit III

**Cisco’s Selected Financial Data***

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<tr>
<th>(US$ millions, except per share data)</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011**</th>
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<tr>
<td>Net sales</td>
<td>28,484</td>
<td>34,922</td>
<td>39,540</td>
<td>36,117</td>
<td>40,040</td>
<td>43,218</td>
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<td>Net income</td>
<td>5,580</td>
<td>7,333</td>
<td>8,052</td>
<td>6,134</td>
<td>7,767</td>
<td>6,490</td>
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<tr>
<td>Net income per share—basic</td>
<td>0.91</td>
<td>1.21</td>
<td>1.35</td>
<td>1.05</td>
<td>1.36</td>
<td>1.17</td>
</tr>
<tr>
<td>Net income per share—diluted</td>
<td>0.89</td>
<td>1.17</td>
<td>1.31</td>
<td>1.05</td>
<td>1.33</td>
<td>1.17</td>
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<tr>
<td>Shares used in per-share calculation—basic</td>
<td>6,158</td>
<td>6,055</td>
<td>5,986</td>
<td>5,828</td>
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<td>5,529</td>
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<tr>
<td>Shares used in per-share calculation—diluted</td>
<td>6,272</td>
<td>6,265</td>
<td>6,163</td>
<td>5,857</td>
<td>5,848</td>
<td>5,563</td>
</tr>
<tr>
<td>Cash dividends declared per common share</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>0.12</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>7,899</td>
<td>10,104</td>
<td>12,089</td>
<td>9,897</td>
<td>10,173</td>
<td>10,079</td>
</tr>
<tr>
<td>Cash and cash equivalents and investments</td>
<td>17,814</td>
<td>22,266</td>
<td>26,235</td>
<td>35,001</td>
<td>39,861</td>
<td>44,585</td>
</tr>
<tr>
<td>Total assets</td>
<td>43,315</td>
<td>53,340</td>
<td>58,734</td>
<td>68,128</td>
<td>81,130</td>
<td>87,095</td>
</tr>
<tr>
<td>Debt</td>
<td>6,332</td>
<td>6,408</td>
<td>6,893</td>
<td>10,295</td>
<td>15,284</td>
<td>16,822</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>5,649</td>
<td>7,037</td>
<td>8,860</td>
<td>9,393</td>
<td>11,083</td>
<td>12,207</td>
</tr>
</tbody>
</table>

*Six years ended July 30, 2011.*

**Net income for the year ended July 30, 2011 included restructuring and other charges of US$694 million, net of tax.

*Adapted from Cisco’s Annual Reports*

### Exhibit IV

**Break-up of Cisco’s Net Sales***

<table>
<thead>
<tr>
<th>(US$ million, except per share data)</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product</td>
<td>33,099</td>
<td>29,131</td>
<td>32,420</td>
<td>34,526</td>
</tr>
<tr>
<td>Service</td>
<td>6,441</td>
<td>6,986</td>
<td>7,620</td>
<td>8,692</td>
</tr>
<tr>
<td>Total</td>
<td>39,540</td>
<td>36,117</td>
<td>40,040</td>
<td>43,218</td>
</tr>
<tr>
<td>By products</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Routers</td>
<td>7,940</td>
<td>6,521</td>
<td>6,728</td>
<td>7,100</td>
</tr>
<tr>
<td>Switches</td>
<td>13,538</td>
<td>11,923</td>
<td>13,454</td>
<td>13,418</td>
</tr>
<tr>
<td>New products</td>
<td>9,859</td>
<td>11,386</td>
<td>13,025</td>
<td></td>
</tr>
<tr>
<td>Other products</td>
<td>828</td>
<td>852</td>
<td>983</td>
<td></td>
</tr>
<tr>
<td>By geography</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US and Canada</td>
<td>21,242</td>
<td>19,345</td>
<td>21,740</td>
<td>23,115</td>
</tr>
<tr>
<td>Europe</td>
<td>8,123</td>
<td>7,683</td>
<td>8,048</td>
<td>8,536</td>
</tr>
<tr>
<td>Emerging markets</td>
<td>4,530</td>
<td>3,999</td>
<td>4,367</td>
<td>4,966</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>5,645</td>
<td>5,090</td>
<td>5,885</td>
<td>6,601</td>
</tr>
</tbody>
</table>

*Four years ended July 30, 2011.*

*Adapted from Cisco Annual Reports*
## Exhibit V

Cisco’s Acquisitions (2000-2011*)

<table>
<thead>
<tr>
<th>Year</th>
<th>Acquirer</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>ExiO Communications, Inc. (Wireless Networks)</td>
<td>NuSpeed Internet Systems, Inc. (IP-enable Storage Area Networking Technology)</td>
</tr>
<tr>
<td></td>
<td>Radiata, Inc. (Wireless LAN)</td>
<td>Komodo Technology, Inc. (Voice-over-IP (VoIP) Devices for Analog Phones)</td>
</tr>
<tr>
<td></td>
<td>Active Voice Corporation (Unified Messaging)</td>
<td>Netiverse, Ltd. (Content Aware Switches)</td>
</tr>
<tr>
<td></td>
<td>CAIS Software Solutions (Broadband Service Management Solutions)</td>
<td>HyNEX, Ltd. (ATM and IP solutions)</td>
</tr>
<tr>
<td></td>
<td>Vovida Networks, Inc. (Voice over IP - VoIP)</td>
<td>Qeyton Systems (Metropolitan DWDM Technology)</td>
</tr>
<tr>
<td></td>
<td>IPCell Technologies, Inc. (Voice and Data Integrated Access Services)</td>
<td>ArrowPoint Communications, Inc. (Content Networking Technology)</td>
</tr>
<tr>
<td></td>
<td>PixStream, Inc. (Distribute and Manage Digital Video)</td>
<td>Seagull Semiconductor, Ltd. (High-speed Silicon for Terabit Routers)</td>
</tr>
<tr>
<td></td>
<td>Pmobile, Inc. (Mobile Wireless Internet)</td>
<td>PentaCom Ltd. (Metro IP Networks)</td>
</tr>
<tr>
<td>2001</td>
<td>Allegro Systems, Inc. (Virtual Private Networks (VPN) for high-bandwidth Networks)</td>
<td>AuroraNetics, Inc. (Silicon Technology for Metropolitan Fiber Networks)</td>
</tr>
<tr>
<td></td>
<td>Andiamo Systems, Inc. (Storage)</td>
<td>Navarro Networks, Inc. (Ethernet Switching)</td>
</tr>
<tr>
<td>2003</td>
<td>Latitude Communications, Inc. (Enterprise Conferencing)</td>
<td>SignalWorks, Inc. (IP Telephony)</td>
</tr>
<tr>
<td></td>
<td>Linksys Group, Inc. (Consumer/SOHO)</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>Protego Networks, Inc. (Security Monitoring)</td>
<td>dynamicsoft Inc. (SIP Technology)</td>
</tr>
<tr>
<td></td>
<td>BCN Systems, Inc. (Networking Software)</td>
<td>NetSolve, Inc. (IT Infrastructure Mgmt Services)</td>
</tr>
<tr>
<td></td>
<td>Jahi Networks, Inc. (Network Management)</td>
<td>P-Cube Inc. (IP Services)</td>
</tr>
<tr>
<td></td>
<td>Perfigo, Inc. (Network Admission Control - NAC)</td>
<td>Parc Technologies, Ltd. (TE Solutions)</td>
</tr>
</tbody>
</table>

Contd...
## Cisco’s Controversial Organizational Model: Another Reorganization!

### 2005

<table>
<thead>
<tr>
<th>Company (Industry)</th>
<th>Acquiring Company (Industry)</th>
<th>Acquiring Company (Industry)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intellishield Alert Manager (Security)</td>
<td>KiSS Technology A/S (Home Networking)</td>
<td>Vihana, Inc. ( ASICs)</td>
</tr>
<tr>
<td>Scientific-Atlanta, Inc. (Video)</td>
<td>NetSift, Inc. (Security)</td>
<td>Sipura Technology, Inc. ( Home Networking)</td>
</tr>
<tr>
<td>Nemo Systems (Switching)</td>
<td>M.I. Secure Corporation (Security)</td>
<td>Topspin Communications, Inc. (Server Fabric Switching)</td>
</tr>
<tr>
<td>Sheer Networks, Inc. (Network Management)</td>
<td>FineGround Networks, Inc. (Security)</td>
<td>Airespace, Inc. (WLAN)</td>
</tr>
</tbody>
</table>

### 2006

<table>
<thead>
<tr>
<th>Company (Industry)</th>
<th>Acquiring Company (Industry)</th>
<th>Acquiring Company (Industry)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tivella, Inc. (Video)</td>
<td>Arroyo Video Solutions, Inc. (Video)</td>
<td>Audium Corporation (Voice)</td>
</tr>
<tr>
<td>Greenfield Networks Inc. (Routing &amp; Switching)</td>
<td>Meetinghouse Data Communications (Security, Wireless)</td>
<td>SyPxx Networks, Inc. (Physical Security)</td>
</tr>
<tr>
<td>Orative Corporation (Voice)</td>
<td>Metreos Corporation (Voice)</td>
<td></td>
</tr>
</tbody>
</table>

### 2007

<table>
<thead>
<tr>
<th>Company (Industry)</th>
<th>Acquiring Company (Industry)</th>
<th>Acquiring Company (Industry)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securent, Inc. (Voice, Security, Web Services, Software)</td>
<td>BroadWare Technologies, Inc. (Physical Security)</td>
<td>Reactivity, Inc. (Application Networking Services)</td>
</tr>
<tr>
<td>Navini Networks, Inc. (Broadband Access &amp; Apps)</td>
<td>SpansLogic, Inc. (Silicon)</td>
<td>Five Across, Inc. (Consumer)</td>
</tr>
<tr>
<td>Latigent, LLC. (Voice)</td>
<td>WebEx Communications, Inc. (Unified Communications)</td>
<td>IronPort Systems, Inc. (Security)</td>
</tr>
<tr>
<td>Cognito, Inc. (Wireless)</td>
<td>NeoPath Networks (Storage)</td>
<td></td>
</tr>
</tbody>
</table>

### 2008

<table>
<thead>
<tr>
<th>Company (Industry)</th>
<th>Acquiring Company (Industry)</th>
<th>Acquiring Company (Industry)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jabber, Inc. (Web Services)</td>
<td>Pure Networks, Inc. (Software)</td>
<td>Nuova Systems, Inc. (Data Center)</td>
</tr>
<tr>
<td>PostPath, Inc. (Web Services)</td>
<td>DiviTech A/S (Cable)</td>
<td></td>
</tr>
</tbody>
</table>

### 2009

<table>
<thead>
<tr>
<th>Company (Industry)</th>
<th>Acquiring Company (Industry)</th>
<th>Acquiring Company (Industry)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Set-Top Box Business of DVN (Holdings) Ltd. (Cable)</td>
<td>Tandberg (Collaboration)</td>
<td>Pure Digital Technologies Inc. (Consumer)</td>
</tr>
<tr>
<td>ScanSafe, Inc. (Security)</td>
<td>Tidal Software, Inc. (Data Center)</td>
<td>Richards-Zeta Building Intelligence, Inc. (Physical Security)</td>
</tr>
<tr>
<td>Starent Networks, Corp. (Mobility)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 2010

<table>
<thead>
<tr>
<th>Company (Industry)</th>
<th>Acquiring Company (Industry)</th>
<th>Acquiring Company (Industry)</th>
</tr>
</thead>
<tbody>
<tr>
<td>LineSider Technologies, Inc. (Network Management)</td>
<td>ExtendMedia (Video)</td>
<td>MOTO Development Group, Inc. (Consumer)</td>
</tr>
<tr>
<td>Arch Rock Corporation (Smart Grid)</td>
<td>CoreOptics Inc. (Optical)</td>
<td></td>
</tr>
</tbody>
</table>

### 2011*

<table>
<thead>
<tr>
<th>Company (Industry)</th>
<th>Acquiring Company (Industry)</th>
<th>Acquiring Company (Industry)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Versly (Collaboration)</td>
<td>newScale Inc. (Cloud)</td>
<td>Pari Networks, Inc. (Network Management)</td>
</tr>
<tr>
<td>AXI OSS Software and Talent (Network Management)</td>
<td>Inlet Technologies (Video)</td>
<td></td>
</tr>
</tbody>
</table>

*2011 data up to end of August. Adapted from www.cisco.com
Exhibit VI

Management Structure at Cisco (August 2009)

Source: Cisco Systems
Cisco’s Controversial Organizational Model: Another Reorganization!

End Notes:

4. Ibid.
17. Gary Hamel, the CEO of Strategos, was also the visiting Professor of Strategic Management at London Business School. He co-authored (with C. K. Prahalad) the concept of core competencies.
19. Ibid.
23. Ibid.
30. Ibid.
32. “Matrix is the Ladder to Success,” www.businessweek.com, August 2009.
Cisco’s Controversial Organizational Model: Another Reorganization!


Ibid.

Ibid.


