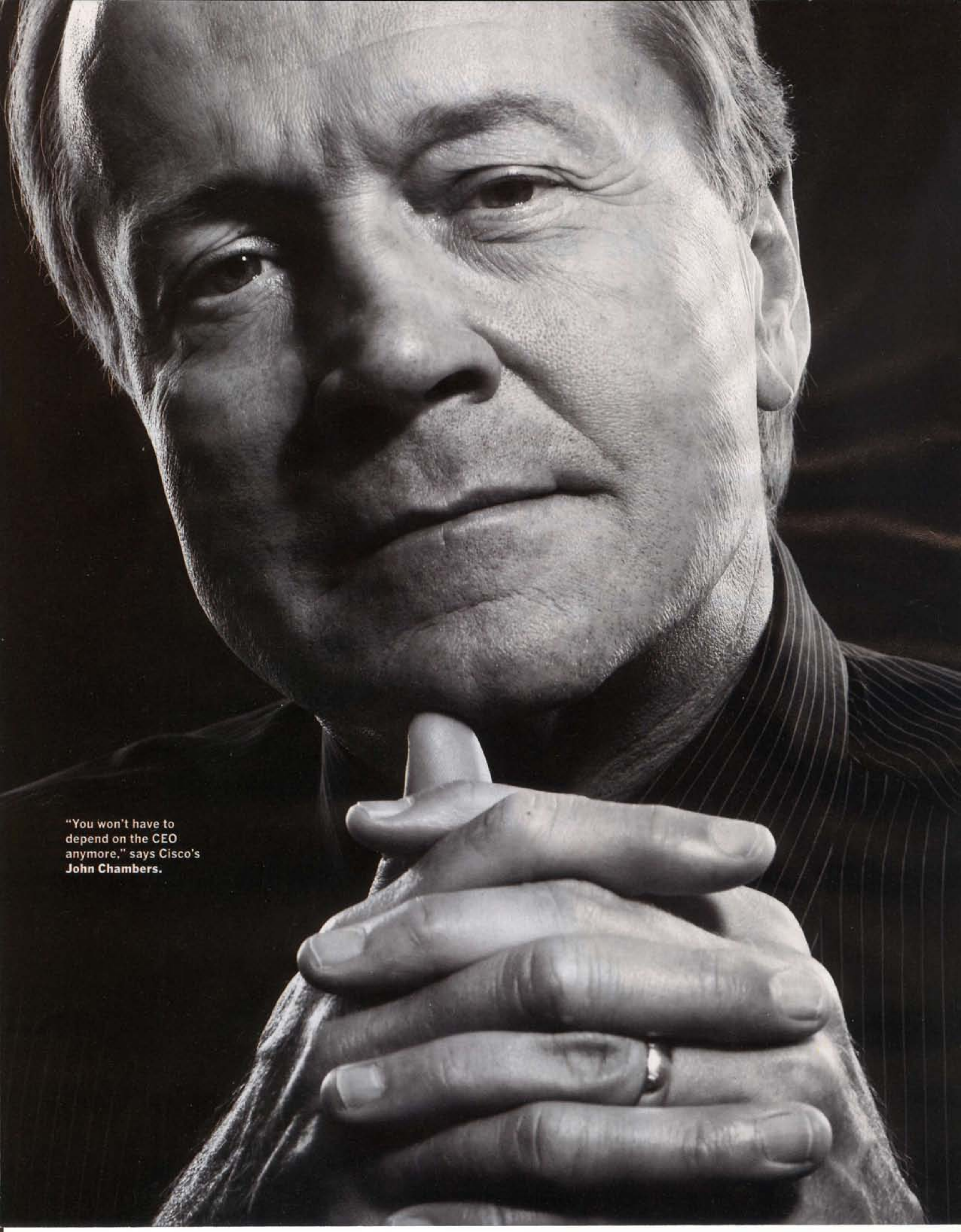
FAST COMPANY

COVER STORY

revolution in san jose

_ a hard-core republican turns Cisco into a socialist enterprise— one with $26 billion in cash

by ellen mcgirt _ photographs by nigel parry



"You won't have to depend on the CEO anymore," says Cisco's **John Chambers.**

September 16, 2008, was just another sunny day in San Jose. The rest of the country, not so much.

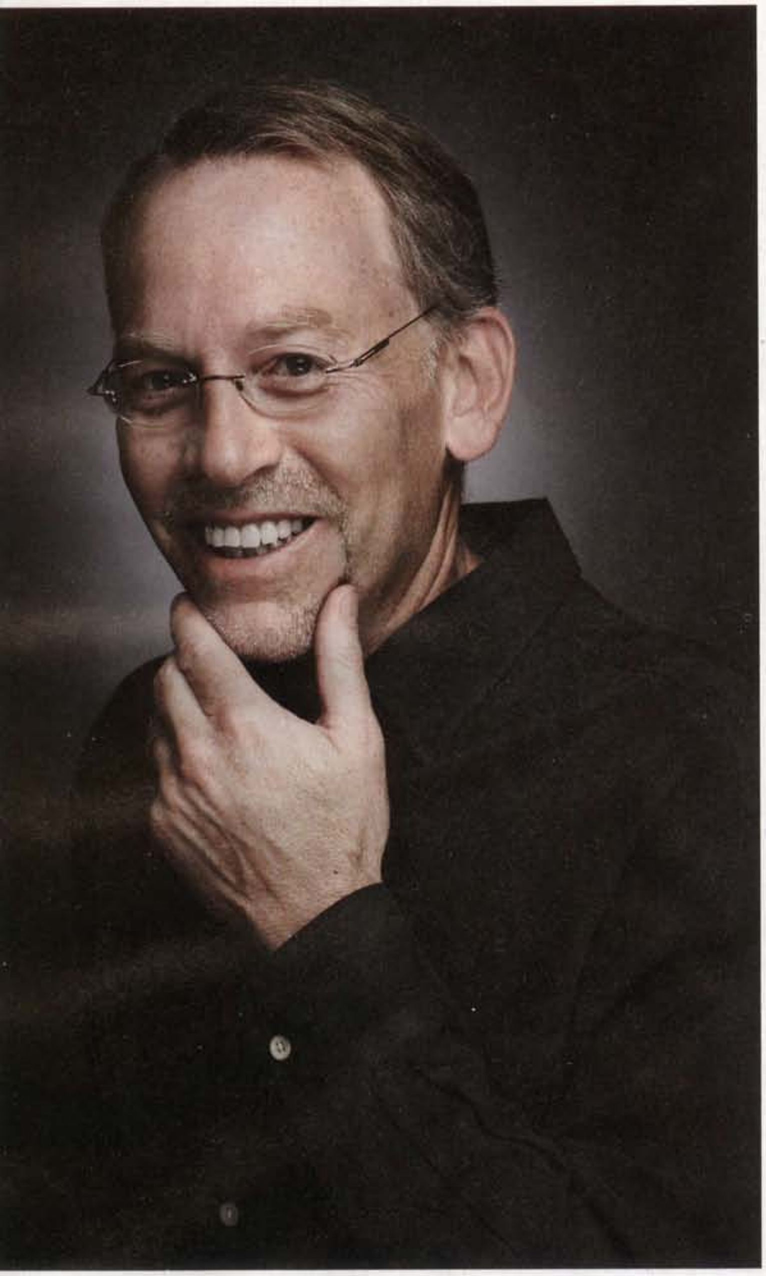
Lehman Brothers had just declared bankruptcy after 158 years in business. Merrill Lynch had been snapped up in a fire sale by Bank of America. Murmurs of woes in credit markets and rating agencies had sent the Dow on a roller-coaster ride, headed mostly down. By the time more than 100 financial analysts arrived in San Jose for their annual meeting at Cisco Systems, many didn't know if they would have jobs when they got home. Piling croissants and other breakfast fare onto their plates, the subdued crowd milled around a catering tent on Cisco's 52-building campus, then quietly filed into the presentation space where John Chambers, the company's legendary CEO, was shaking hands and holding court.

To the fading strains of U2's "Beautiful Day"—a projected slide of two executive types sitting lotus style and meditating got a few chuckles—Chambers bounded to the front of the room. Looking out over the group, he paused before discussing Cisco's business. First, he wanted the analysts to know that, well, he felt their pain. "We went through a life-threatening experience in 2001," he said, referring to the good old days when a market bubble was just a tech-sector problem. "At first, there is disbelief, then understanding . . . then how do you position yourself for the future?" Most companies come out of things like this stronger and more flexible, he assured the nervous crowd. "But if there is anything we can do in any way to help, we will be there for you."

He waited a beat, took a breath, and moved on. "Now, let's take a step back," he said—and began talking about just how much stronger and more flexible Cisco is today. Sure, Cisco's stock has gotten hit in recent months along with everyone else's, but the company's underlying business remains robust. Back in 2001, Cisco went from being the most highly valued company in the world to a cautionary example of the excess of bubbles. Today, in the midst of an even wilder economic spiral, the company has a cushion of $26 billion in available cash, two dozen promising products in the pipeline—each of which is targeting a minimum 40% market share—plus an unprecedented forward-looking strategy to unleash what it's calling a "human network effect" both on and off the Cisco campus.

Cisco is the plumber of the technology world. Roughly three-quarters of its revenue comes from the routers, switches, and advanced network technologies that keep data moving "7/24," in Cisco vernacular. The company's outlook has been buoyed by the hunger for cheap and easy video—not just from regular folks whiling away the online hours watching cats on a wheel, but from network spending and infrastructure upgrades for companies, a market that's expected to reach $50 billion by 2013. "It was a market transition we saw early," Chambers told me during one of several exclusive conversations in New York and San Jose.

And Chambers has greater ambitions, even now, in the midst of turmoil. Or, perhaps, especially now. He has been taking Cisco through a massive, radical, often bumpy reorganization. The goal is to spread the company's leadership and decision making far wider than any big company has attempted before, to working groups that currently involve 500 executives. This move, Chambers says, reflects a new philosophy about how business can best work in a networked world. "In 2001, we were like most high-tech companies, with one or two primary products that were really important to us," he explains. "All decisions



"I can say with a straight face that there were some colossal failures in the beginning."

—Ron Ricci, *vice president of corporate positioning*

Ricci, who describes himself as **"John's scaling machine,"** worked closely with Chambers on changing Cisco's cowboy culture. "Collaboration won't work if there's one person in charge."

Sheila Jordan, vice president of IT, communications, and collaboration technology, says, "We are always looking for applications that help people really have water-cooler talk."

"We want everyone participating in this new environment, sharing their points of view." —Sue Bostrom, *chief marketing officer*

"People come to the Web looking for expertise," says Bostrom. "We're giving them that." **Cisco.com answers consumers' questions** and encourages interaction with vendors and employees.

Jim Grubb, vice president of corporate communications architecture and Chambers's sidekick for product demonstrations, says, "Collaboration helps a world community solve big problems."

came to the top 10 people in the company, and we drove things back down from there." Today, a network of councils and boards empowered to launch new businesses, plus an evolving set of Web 2.0 gizmos—not to mention a new financial incentive system—encourage executives to work together like never before. Pull back the tent flaps and Cisco citizens are blogging, vlogging, and virtualizing, using social-networking tools that they've made themselves and that, in many cases, far exceed the capabilities of the commercially available wikis, YouTubes, and Facebooks created by the kids up the road in Palo Alto.

The bumpy part—and the eye-opener—is that the leaders of business units formerly competing for power and resources now share responsibility for one another's success. What used to be "me" is now "we." The goal is to get more products to market faster, and Chambers crows at the results. "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!" As storm clouds form for the rest of the business community, he says, "We're going to gain market share." Rain? What rain?

Cisco, Chambers argues, is the best possible model for how a large, global business can operate: as a distributed idea engine where leadership emerges organically, unfettered by a central command. Chambers and his team have been sharing detailed case studies of their experiences and best practices with the likes of AT&T, General Electric, and Procter & Gamble, and with customers in emerging markets from Russia and China to Mexico and Brazil. "We did it first ourselves; now we teach our customers. And the neat thing about it is that they'll use our technology to do it."

An avowed Republican (and a cochair of John McCain's presidential campaign), Chambers politely ignored my observation that Cisco's new regimen feels a bit like a socialist revolution. But Chambers did kick off the analyst conference with a slide that read, COLLABORATION: "CO-LABOR"; WORKING TOWARD A COMMON GOAL. In language and spirit, Chambers's transformation is a mashup of radical isms and collectivist catchphrases. Of course, with analysts suggesting that the "collaboration marketplace" could be a $34 billion opportunity, it's radicalism of a reassuringly capitalist bent.

Power to the people—and profits to the company—is a bold tech promise we've heard before. If Chambers can pull it off, if he can prove that his model drives innovation at a market-beating pace, he will replace his pal Jack Welch as the most influential leadership guru of the modern era.

"Are you Ellen?"

On the morning of the analyst meeting, I am stopped on the sidewalk as I walk toward Building 10 at Cisco HQ, the business home of Chambers and his C-suite execs, known as the operating committee. Smiling at my confusion, Mike Mitchell, the director of technology communications and my first interview of the day, introduces himself. He explains that he has been given my photo and copies of articles I've written—my first sign of just how intensive Cisco's internal communications are. He offers to run next door to Building 11, which has the cafeteria, and more important, a

_what would john do?

"If you watch what is occurring today, people are acting like the sky is falling," says Cisco CEO John Chambers. But he has learned through numerous economic downturns—he cites 1993, 1997, 2001, and 2003—that it's entirely possible to come out stronger than you were before. "Every time, we have gained market share, and two years later, our customer and employee satisfaction was greater," he says. Here's his advice for facing tough times.

- "Focus on what we can influence, and not over- or underreact to things we cannot. It's a question of living in the world as it is, not the way we want it to be."

- Assess the damage externally—vendors, customers, colleagues. "In 2001, we went to our customers in energy, manufacturing, and automotive, to name a few. We asked, 'How are you handling this?'"

- "Ask yourself, 'Is this a market-driven phenomenon or did we do it to ourselves?'" Based on the answers you get, formulate a response. "In 2001, our strategy was working extremely well before the downturn, and it seemed to be working from the customers' side, so we said it was 90–10. That turned out to be about right."

- Make a determination of how long this will last and how deep it is going to be. "Prepare yourself for it to be longer and deeper than you think. And then build flexibility to adjust quickly if you need to."

- Get ready for the upturn. "What's our vision for where this industry is going with or without us?" That, he says, is a five-year horizon. "What is our differentiated strategy within that vision?" That's a two- to four-year plan. "How are we going to execute in the next 12 to 18 months?"

Starbucks. I offer to free up his hands by holding onto his sheaf of papers. He dashes away, leaving me holding not only his papers but also his laptop. In some companies, this would be akin to handing a perfect stranger your purse or your infant—things that even friends think twice about handing over to a member of the national media.

Trust and openness are words you hear a lot in the endlessly optimistic world of Web 2.0, but at Cisco, it seems to be more than a PowerPoint mantra, even to my jaundiced eye. As Mitchell and I settle down to our conversation in an open space not 25 feet from Chambers's office, I can hear the CEO chatting on the phone with customers. Mitchell, who is charged with encouraging the company's rank and file to adopt new technology, is undistracted. "We want a culture where it is unacceptable not to share what you know," he says. So he promotes all kinds of social networking at Cisco: You can write a blog, upload a video, and tag your myriad strengths in the Facebook-style internal directory. "Everybody is an author now," he laughs. Blog posts are voted up based on their helpfulness. There are blogs about blogging and classes about holding classes—all gauged to make it easy for less-engaged employees to get with the program.

The goal is not just tech for tech's sake. For Mitchell and his bosses, vice president of IT, communications, and collaboration technology Sheila Jordan and chief information officer Rebecca Jacoby, Cisco has become a laboratory of connectedness and productivity. They are teaching people to use the stuff that Cisco sells—the routers, switches, IP telephony, data centers, mobile devices—by starting with their own people. As chief marketing officer Sue Bostrom puts it, the first wave of the Internet was an exercise in installation: "Really, it was all about just getting people online." In the second wave, the job is to show people how to best use the tools, she says: "Now that I'm on, what can I do?" So that Facebook-style directory at Cisco serves not just as a way to make lunch plans or find a second baseman for a softball game. It is a real-world, real-time sorting apparatus, designed to help anyone inside the company easily find the answer to a question, a product demo, or precisely the right warm body to speak to a waiting customer or present at a conference—in any language, anywhere around the globe.

The open-source nature of the culture has yielded a litany of surprising results. For instance, while PCs are the official desktop hardware at Cisco, Mac users in the company have created their own unofficial help desk using the company's social tools, outside the official purview of the IT department. Mitchell's team created its own "rogue deployment," as he puts it, called C-Vision, a YouTube inside the firewall that has become one of the company's most popular communication tools. Most of the videos are short product reports, sales ideas, and engineering updates, all created deskside and published directly to the network with the click of a mouse. No filter, no lawyers. It is a petri dish for ideas and exchange.

"We are always looking for the applications that help people really have water-cooler talk, something that we thought was impossible in a global business," says Jordan (whose group takes over rogue ventures like C-Vision if they become superpopular, to scale them and protect against network overload). "Collaboration this way helps a world community solve big problems," says vice president Jim Grubb, Chambers's longtime product-demo sidekick. "If we can accelerate the productivity of scientists who are working on the next solar technology because we're hooking them together, we're doing a great thing for the world." And, of course, selling more routers and switches.

"We now have a whole pool of talent who can lead these working groups, like mini CEOs and COOs." —John Chambers, *CEO*

It has come as a mildly unwelcome surprise to Chambers that his blog—in video, which he favors because he is dyslexic—is only the second most popular at Cisco. He pauses almost imperceptibly, smile frozen in place. "Second?" he asks. "What's the first?" The two handlers sitting with us begin shuffling through papers.

We are sitting in the cramped 10-by-10 meeting room behind Chambers's office. It is my third encounter with Chambers, and nearly a month after Mitchell told me about the staff blogs. When I walked in, Chambers invited me to sit in his ergonomic chair at a small table as he cleared away the remains of three Diet Cokes (he drinks them constantly). He has been warm and polite throughout our conversations and remains that way, though with the blog business, it is clear he is a bit piqued.

The company's No. 1 blog, I tell him, is apparently about collaboration, which seems to mollify him. I offer that I've been told the third most popular is "some random director" in the middle of the pack, who blogs about how to position Cisco products against various competitors. (The random guy turns out to be Michael Beesley, a director of engineering in the edge-routing business unit, five layers down in the reporting hierarchy. Among his greatest hits are "ASR Completes Security Testing" and "ASR 1000 Customer List." Heady stuff.)

Chambers bursts into laughter, a hee-haw that longtime employees imitate to perfection. "You see?" he says, wiping his eyes. "The neat thing is that all this," he waves his hands, "just motivates people higher." He turns to his wranglers. "I want to

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meet that guy!"

Chambers can afford to laugh. Despite the stock's decline, Cisco's financial flexibility is high, thanks in part to that $26 billion cash bulge (an amount more than a few financial institutions wish they had). "Not only do we have the $26 billion," he says, "we now have 26 new market adjacencies that are not relevant to our revenue today, but they will be three to four years from now." And that, he says, vindicates his decision to reorganize the company.

When I ask if he is considering using the money he has on hand to buy back Cisco stock ($17.86 as of October 29), or bottom-fish for acquisitions, he says brightly, "All of the above." And might some cash be used to help clients (via Cisco Capital Finance, the company's financing arm)? "We know how to handle leasing in tough times, so it's one variable, yes." According to *The Wall Street Journal*, Cisco financed more than $4 billion of purchases in the last fiscal year. Its strong cash position means that it can continue to step in should a customer experience an unexpected credit crunch. "In Russia, our leasing portfolio is more than $700 million, with one small write-down for only $200,000. So it's not just bringing it to the market, it's bringing it in a way that will make money."

He talks of the dark days of 2001 more candidly than I expect, in no small part because they are behind him, but also because they led to the emergence of today's radically different Cisco. In the company's old "cowboy culture," strong personalities were rewarded for jostling one another out of the way to get Chambers's approval. After he launched the reorganization into boards and councils, "there were times when everyone, even the CEO, was very uncomfortable," he admits. The internal economy of the old Cisco was very much market based. Chambers chose to redistribute the wealth: Executives are now compensated on how well the collective of businesses performs, not their own individual product units. (Playing well with others is also an increasingly important part of rank-and-file employees' performance reviews.) There was a wall of cultural resistance for these changes, Chambers says, and some 20% of his execs left. "Explaining to people why we needed to change things was the hard part."

One longtime Cisco employee who didn't need convincing was senior vice president Tony Bates, who runs the $12.5 billion service-provider group. "We had purchased all these companies, we didn't even know what they did," he says. Without the reorganization, he adds, "we'd still be thinking in a straight line, pure cowboy. It was an important shock to the system."

Chambers wants nothing less than a total redesign of the corporation as we know it. Starting at the top: "You won't have to depend on the CEO anymore." About those Cisco execs who left, he says he came to realize that "some people need a command-and-control environment." But that's not the way of the future: "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." In fact, he says, "where I might have had two potential successors, I now have 500."

Chambers is convinced that the role of the CEO has to morph. He recalls a lesson he learned working for An Wang of Wang Laboratories, whom he has often called one of the smartest people he's ever known: "One person cannot anticipate a market transition. At Wang, we transitioned four times, but we missed the fifth, from mini computers to PC and software. If you don't catch them [all], you leave your company behind."

I am staring at a beamed-in, life-size image of Cisco vice president Ron Ricci in one of the company's Telepresence video-conferencing suites. It is an eerie experience of Star Trekian proportions. The room Ricci is sitting in—he is in San Jose, I am in New York—looks exactly like the room I'm sitting in, down to the logo behind me and the wood-paneled conference table in front. (Telepresence, at $300,000 fully loaded, has become Cisco's fastest-growing product.) Except for my initial tendency to holler at his image, it really is as if we're meeting in person.

It is Ricci's job to translate Chambers's ideas into action—as he puts it, "I'm John's scaling machine"—and he was the chief architect with Chambers of the new quasi-socialist Cisco. They were inspired in part, Ricci says, by management guru 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," Ricci says. "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."

The boards and councils he and Chambers have created are cross-functional, interdepartmental, even international teams of executive "volunteers," who organize themselves around major initiatives or specific product lines. Ricci, for example, convened a board of self-identified sports freaks to brainstorm how Cisco might tap into the sports business. Without buy-in or even permission from Chambers, they brought in 15 people with

> "I think that culture is really a reflection of the CEO personality." Collaboration works, "but only if it is what the CEO believes." —Ron Ricci, *VP*

relevant skills—turning down an invitation to collaborate is not an option—and built a product called StadiumVision, which allows venue owners to push video and digital content, including targeted advertising, to fans in the stadium. Ultimately, the board collaborated with sales and marketing to win contracts with the Arizona Cardinals, the New York Yankees, and the Dallas Cowboys. A multimillion-dollar business came together in less than 120 days.

Across the company, Ricci says, fiscal 2008 saw "a tenfold increase in new projects." And he points out that operating expenses have been trimmed from about 38% at the height of the tech boom to between 35% and 36% today: "We're shaving 2% to 3% of profit off of every dollar of revenue we get in."

At this year's analyst conference, Cisco introduced a network platform designed to carry secure, high-quality video and other rich media—ultimately virtualization—on TVs, PCs, and mobile devices. "Any screen you show me, our network can handle it," Chambers told me. MediaNet, as it's known internally, was developed, in corporate terms, practically overnight. Ninety days after the council's first meeting in December 2007, it had a strategy and $25 million in initial investment. Some 120 days later, there was a prototype and more money was allocated. The product will be available in December—12 months total. "This is awesome performance," Ricci asserts. "We are doing all this at the vice-president and director level. We don't need John to do this now."

Chambers still commands-and-controls, at least some of the time. European customers, for instance, convinced him that so-called smart-grid technology was a form of routing and switching, something that Cisco already understood and that customers needed. So he greenlighted it from the top. "By handling peak loads, switching to alternative-energy sources, we can dramatically reduce the cost of electricity and cut carbon emissions," he says. "It can be a $1 billion or $10 billion business for us."

But Chambers seems genuinely committed to reducing his own personal impact. And the impact and importance of any successor as CEO. The company has stated that Chambers, now 59, will remain chief for at least the next three to five years; that doesn't mean, though, that the window of "who's next" speculation won't open soon. Chambers is quite aware of how the battle over Welch's perch at GE cost that company many of its brightest top executives. His new corporate structure is gauged to limit that kind of fallout. "I now compensate our leadership team based on how well they do on collaboration and the longer-term picture," Chambers says. "If we take the focus off of how they did today, this week, this quarter, it will work."

Can Cisco-style collaboration really work outside of Cisco? Its supporters inside the company argue that the global marketplace and the ubiquity of Web 2.0 tools demand a workforce empowered to generate ideas, solve problems, and contribute to the greater good without micromanagement. Ricci, who meets with 50 to 75 customers a year, says, "It's the No. 1 item on the list of most CEOS—to break down the barriers, between me and my customers, and me and my partners."

But Ricci admits, "I think that culture is really a reflection of the CEO personality. It's possible Larry Ellison would make a great CEO of Cisco, in terms of his business skill, but he's so different from John that he would probably spend the next 20 years trying to make the company be like him." Ricci believes that Cisco's guideline for collaboration is a great way to run a company and build a great workforce, "but only if it is what the CEO believes, that this is how people should behave."

Because if top executives have to cede control over their resources, the CEO does too. At Cisco, Chambers says, the ratio of distributed innovation to traditional decision making is about 70-30. "That's the right mix for us." But the ratio is not set in stone. Unlike last-century manufacturing-based leadership systems like Six Sigma that are designed to make management consistent and predictable, Ricci says, "we want to add variability, not remove it." So Cisco is prepared to help other companies find the right mix for them.

Chambers's big gamble (and he does gamble; employees talk admiringly of his skill at Liar's Poker) is turning Cisco from a technology company into a leadership

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consultancy. Its competitors—which used to be the likes of Juniper Networks and Alcatel-Lucent—now range from 3Com to Microsoft to IBM, as he drives the company to seek out areas for growth. The fizzling enthusiasm of venture capital for startups reduces the likelihood of any serious challenge from young companies new to the collaborative marketplace. With some key acquisitions in 2006 and 2007, including Scientific Atlanta, Cisco has even signaled that it wants to own the set-top-box market that controls home video, which could pit the company against cable firms and big media. And though Cisco doesn't ostensibly charge for consulting services, it could eventually add the Accentures of the world to its competitive set. "We're a tech adviser on architecture, yes," Chambers says, "but how does it all tie together? We're really talking about business-process change. And since we've done it for ourselves, we can show others how."

Back in the mid-1990s, Chambers says, "our customers literally pulled us kicking and screaming into providing consultancy." He tells me about the time the CEO of USAA asked him to come down and help the financial-services company figure out what to do with the Internet: "I said, 'Sir, I'm not in that business.' 'If you do it,' came the reply, 'I'll give you all my networks.' And I said, 'Sir, I'm in that business!' " Chambers believes that he is seeing the same situation now—people who are aware that blogs and wikis and Twitter exist but who don't know how to use them safely and effectively. "We've been working on this for seven years," he says. "We've added culture to our core competencies."

CMO Bostrom points to Cisco.com, where customers can get real-time answers to their questions, participate in discussion forums, watch videos, and share ideas with other customers, vendors, and Cisco employees. Cisco.com even has a mildly hip consumer section with helpful blog posts and programming called "Digital Cribs," where the cool (video artist Lincoln Schatz) and famous (NBA player Shane Battier) share their digital lifestyles.

Taken to its ambitious conclusion, Chambers wants customers to remake their companies in Cisco's image, a prospect possible only because of their dependence on Cisco technology. "Without changing the structure of your organization," Chambers told the analysts in September, "I would argue that [innovation] will not work."

For him, it was the earthquake in China last May that makes the best case for the power of his model. Tae Yoo, a 19-year Cisco veteran, supervises the company's social-responsibility efforts and sits on the China strategy board and the emerging-countries council. "I had always been a believer in collaboration," she says, but after the earthquake, "I saw it really happen. Our local team immediately mobilized, checking in with employees, customers, NGO partners. The council got people on the phone, on Telepresence, to give us a complete assessment of what was happening locally. We connected West China Hospital to a specialized trauma center in Maryland via the network." High-level medical centers from the other side of the world were able to weigh in on diagnostics remotely. Cisco employees were on the ground helping rural areas recover and rebuild homes and schools. Within 14 days, Yoo continues, "I walked over to the China board with a complete plan and $45 million to fund it." That number ultimately grew to north of $100 million. "Our business is growing 30% year over year there," Chambers says, adding that Cisco has committed to investing $16 billion in public-private partnerships in China. "No one has the reach and trust that we do. No one could offer the help that we could."

As we wind down our conversation, Chambers makes sure to let me know that, as revolutionary as he may sound, he's an old-fashioned guy at heart. He married his high-school sweetheart. Cisco employees are a family, he tells me. "We take care of each other." And Liar's Poker is just for fun: "I never gamble in business, ever."

Although he doesn't pick up on my socialism meme, when I compare the new Cisco with *Star Trek*'s Borg, he stops me cold. (For readers unfamiliar with the Borg, it is a pseudo-race of beings who get assimilated into an interconnected "hive mind," losing all sense of self.) Chambers can't contain himself here. "No, no!" he bounces in his chair. "People still have their own individual personalities. In fact, the system depends on it!" He then unrolls a disturbingly detailed analysis of the Borg. I can't help but laugh. "Oh, I know what the Borg is," says Chambers, laughing along with me. "We are definitely not that!" FC

> Feedback: mcgirt@fastcompany.com