URL: https://stvp.stanford.edu/clips/four-pillars-of-innovation

Padmasree Warrior, Cisco's chief technology and strategy officer, articulates her company's framework for growing innovation: build, buy, partner and integrate. While elements of the approach may involve occasional challenges of internal alignment, says Warrior, the long-term growth and entrepreneurial spirit inside of Cisco is proof of the framework's viability.

Transcript

Cisco thinks of innovation as really having four pillars.. And we call them build, buy, partner and integrate.. And we feel we are a very unique company in that regard.. Cisco is made up roughly in our history of about 30 years of 169 acquisitions.. We are company that's been brought together by bringing different cultures, different products and it's sort of very interesting to think of us that way.. And we joke inside the company and say we have - sometimes we say we have 250 CEOs in the company.. So when we acquire companies, people who have led companies that have come into our company or we've hired them after they ran some business, it brings a very interesting dynamic within our company because it creates a whole entrepreneurial spirit and how people innovate and think about it, right? So it's a positive side of it.. On the negative side of it, it's very difficult to get everyone aligned because everyone wants to go off and do their own thing and I just talked about how innovation needs to be much more multi domain.. And so I think this is a balance that most of us have to deal with as we go forward being not necessarily being an expert in every domain but also having a vision to realize where you need to partner.. So the way we approach innovation, acquisitions and investments and being a part of a very vibrant, technical, entrepreneurial community is very much a strategic pillar for us..

We roughly expect one percent to two percent of our growth every year in revenues to come through acquisitions.. So that's something we plan for, we actively look for.. We go search for companies that look interesting.. We're also an investor in addition to acquiring companies, so we actually have something like a venture fund inside our company that's pretty big.. We don't advertise the total value but we have several investments across the world.. So that's sort of how we think about inventions and innovation.. I think that will be the model going forward.. So it's not just build and buy, partner and partnering meaning sometimes our investments, our portfolio companies actually become partners for us.. And then the value we bring to those portfolio companies is actually exposing them to our channel, our brand and our customers so that their startup gets the scale of a bigger company without really being part of a bigger company.. And the benefit to us is we get to understand the startup idea or the innovation in a much more intimate way than we would otherwise do..

So that's sort of how we think about partners.. And then integrate is something that we added new and the reason we added it is one of the things that's very important in business and I think it's going to become more important in the internet of everything and the reason is every vertical definite in the industry is going to be influenced through this internet of everything.. So integration means when you acquire something, how does that product work with an existing platform that's already there, right? That's one challenge.. The other challenge in integration is much more cultural.. There is the cultural value of the startup which is very agile, fit within a big company of 60,000 people, $100 billion worth of market cap.. How do those two reconcile with each other? So we're very careful about how we think through that.. And because we are such an acquisitive company and this is very much a part of our strategy, we've established what we call golden rules for acquisitions and we kind of think of these as criteria that we actually screen different opportunities with.. The first thing we look for is it aligned with the vision and the strategy of our company.. And we look for things that are disruptive but perhaps adding value to us.. One of the things we really believe in is that we sometimes have to disrupt our own business model and our own products because someone else is going to do to us otherwise..

So we actually purposely sometimes and again this is a very unique thing that Cisco does.. We create something called Spin it.. We take ideas that our engineers come up with and we fund them to go do a startup.. We actually give them money to leave our company and go build something that is disruptive that could affect our business, but we put some conditions; if

they are successful, we get the right to buy them back first unless we decide not to do so.. And so the benefit for that - in that model is that entrepreneurs who are doing that know that if they are successful there is a planned good exit for them.. The benefit for us is that we keep that entrepreneur and the opportunity close to us especially if it's going to be disruptive to our core.. And through our history we've been able to reinvent our business model two or three times with this.. That's a good side of it.. It does create tension though because not everybody can leave us and do startups all the time, right? So we are very selective in how we do this.. So people that don't get to go to do this startup always feel like I missed out on this chance..

So I think there is a human element to how this needs to be managed that we are a very cognizant of.. So that's sort of how we think about innovation and I think this is going to be the new model for how companies, big companies as well as small companies have to innovate going forward...