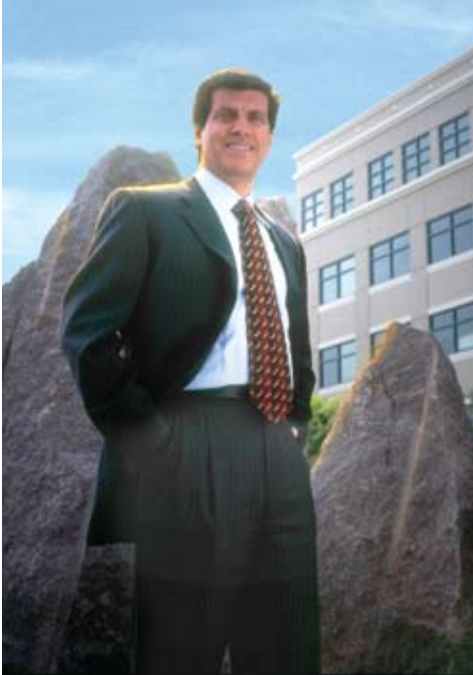


On Finance Transformation

Q + A with Cisco CFO **FRANK CALDERONI**

INTERVIEW BY **RICHARD WOODWARD** > PHOTOGRAPHY BY **MATT LENNERT**



Frank Calderoni is executive vice president and chief financial officer at Cisco, managing the financial strategy and operations of a company with more than 65,000 employees and total revenue for fiscal year 2007 of \$34.9 billion. Prior to becoming CFO, Calderoni served as Cisco's senior vice president, Customer Solutions Finance, where he was instrumental in bringing about disciplined decision-making and enhancing transparency in the company's reporting. He led efforts to create and define the value chain for the sales and services model from which organization, staffing, compensation plans, targets, territory definition and sales goals could be derived. He was also responsible

for the decision support model on investments related to sales, services, and marketing, including acquisitions.

Before joining Cisco in 2004, Calderoni served as senior vice president and CFO at QLogic Corporation, a storage networking company, and earlier held the CFO post at SanDisk Corporation, a flash data storage company. Previously, he spent 21 years at IBM Corporation, with roles including CFO responsibilities for several divisions, including Global Small Business and Storage Systems, within the IBM Server Group.

INCREASINGLY, WE SEE CFOS HAVING TO WEAR MULTIPLE HATS TO BE HIGHLY SUCCESSFUL IN TODAY'S COMPETITIVE GLOBAL MARKETPLACE. ONE IS THE STEWARDSHIP HAT, MAKING SURE THAT FINANCIAL REPORTS ARE FAIR AND ACCURATE AND CONTROLS ARE IN PLACE. BUT THAT'S TABLE STAKES. WHAT'S YOUR PERSPECTIVE ON HOW THE CFO'S ROLES HAVE PROLIFERATED?

If you look at the CFO role, these are exciting times. Going through Sarbanes-Oxley, there was an emphasis on the steward role. But as we moved beyond that, we're now in a world that's constantly changing with an expanding business portfolio that branches out into many different areas.

I look at the role of the CFO today as being a strategist and catalyst. CFOs are helping to drive the business as an equal partner with other functional leads.

A STRATEGIST IN THE SENSE OF FORMULATING STRATEGY, OR ACTUALLY EXECUTING THE STRATEGY?

I think it's both. In Cisco, we developed the Strategy Exchange Board, which is led by the finance organization. The purpose is to reach out into the business and get the right strategic thinkers to be part of the strategy process and ensure that we have equal participation from the different elements of the business – while maintaining finance's objectivity and attention to results.

Cisco is a growth company with long-term growth of 12 percent to 17 percent, so the strategic process is really critical for us to be able to identify ongoing growth opportunities over a longer period of time.

The next piece is execution. When we implement particular strategies, it's critical that we align them to our strategic market segments and insure that we have the right metrics and accountability so that once decisions are made, we can then execute on those in the near term as well as in the longer term.

HOW DOES THE CFO HELP AN ORGANIZATION GET ALIGNED AROUND THE STRATEGY ARTICULATED BY THE SENIOR LEADERSHIP TEAM FOR THE ENTERPRISE?

As a member of Cisco's operating committee, I work with the executive management team to define our business model and a long-term outlook that includes both financial and non-financial metrics.

We then work collaboratively across internal cross-functional councils and boards to focus on existing, adjacent and new market segment business opportunities and what it will take to achieve desired performance indicators.

And at the end of the day, this virtual organizational model ensures all our functions are aligned and coordinated to accomplish our market-driven, companywide goals.

CISCO IS SO LARGE THAT IT MUST BE DIFFICULT TO ENSURE THAT, FOR THE THOUSANDS OF MICRO DECISIONS THAT ARE BEING MADE ALL THE TIME, PEOPLE HAVE THE RIGHT JUDGMENT AND BUSINESS ACUMEN TO MAKE THOSE DECISIONS WORK. DOES FINANCE TAKE SOME OWNERSHIP IN BUILDING THAT ENTERPRISE-WIDE ACUMEN?

Very much so – within the finance organization and across the board. It's critical that you enable the decisions within the business not to reside just at a corporate level, but to really spread and have the right decision-making and accountability at various levels of the organization.

Again, our cross-functional/cross-business councils and boards have allowed us to really scale. Over the last couple of years, the cross functional councils and boards have enabled us to leverage our talent and disseminate decision-making responsibilities throughout the company. Having the right talent around those councils and boards with the right business acumen and capabilities to be able to make those decisions is critically important in achieving execution excellence.

Finance plays a key role being part of those councils. These councils and boards have engineers, sales personnel, marketing personnel, supply chain management, operations and finance, really kind of small business groups that are making the decisions or trade-offs, and those decisions are aligned to an overall vision.

HOW IMPORTANT IS IT TO HAVE ROTATION BETWEEN THE OPERATING COMPANIES/BUSINESS UNITS AND FINANCE LEADERSHIP TEAM IN SOME SORT OF STRUCTURED WAY?

In my experience, building business acumen is a matter of making sure that you attract and retain the right talent from a leadership standpoint and continue to develop that talent.

As a steward, we clearly have the accounting and finance background, which provides the foundation for being a strategic advisor to the overall priorities of the business. Additionally, I strongly encourage the finance team to get close and understand the functions that they help support or the business they help support.

As mentioned earlier, finance participates in our internal cross-business councils, boards and working teams that drive the corporate priorities. These formal and informal structures build upon the relationship between Finance and the business and ensure we don't just operate in the backroom, but at the forefront of the business as a collaborator and advisor.

I KNOW THAT YOU'VE BEEN IN CFO ROLES BEFORE, BUT YOU'RE NEW IN THE SADDLE HERE AT CISCO AND YOU HAVE TO SPEND A CERTAIN AMOUNT OF YOUR TIME FACING OFF AGAINST WALL STREET. IT MUST TAKE UP A FAIR AMOUNT OF TIME, AND THEIR DEMANDS ARE GETTING HIGHER. HOW DO YOU BALANCE ALL THESE DEMANDS ON YOUR TIME?

I spend time with both Wall Street's buy and sell side—they are important constituencies—especially the buy side. I have to balance this with all of the responsibilities and activities I have related to both my stewardship and strategist roles at Cisco. I try to look longer term and make sure that I allocate my time across both and try to make sure that I'm always managing the right balance.

MANY CFOS CONCENTRATE ON THEIR BALANCE SHEET AND SPEND LESS TIME ON THE INCOME STATEMENT. OFTEN THE MAJORITY OF TIME THEY SPEND ON THE INCOME STATEMENT IT'S ON THE COST SIDE, NOT ON THE REVENUE SIDE. DOES THAT SQUARE WITH YOUR EXPERIENCE?

We're very focused on growth – profitable growth. It's making sure that our metrics incorporate both the income statement and the balance sheet, so that as we're growing the top line, we ensure that it's profitable growth.

Interestingly, some recent work on the relative value of growth (RVG) published in a 2005 *Harvard Business Review* suggests the market places a higher value on revenue rather than earnings growth. Cisco's market valuation is based upon a combination of revenue growth and operating margin improvements. Therefore, the best strategy for Cisco is to pursue both revenue and earnings growth; with a strong emphasis on growth.

ACQUISITIONS HAVE BEEN A SIGNIFICANT PART OF CISCO'S HISTORIC GROWTH. TO WHAT EXTENT DOES THE CFO PLAY A LEADERSHIP ROLE IN THE EXECUTION OF AN ENTERPRISE ACQUISITIONS STRATEGY?

Cisco's successful acquisition strategy is one piece of our overall growth. We evaluate investments looking at both the strategic and cultural fit. On the execution side, we have a CFO commit process where the CFO, along with the leaders

of the acquiring business and business development, lead the execution process, ensuring successful integration within Cisco. The CFO and finance team play a strong role both on the strategy as well as on the execution of acquisition targets.

WHAT'S THE HARDEST PART OF YOUR JOB?

I'm always looking at our portfolio – what makes sense and what doesn't. A big part of my job is gaining consensus around prioritizing our portfolio. Sometimes, that can be difficult. Not everyone agrees at first on where to invest.

OR NOT INVEST?

Or not invest, right. Let's take it back to an acquisition. You've got a team that has done an extensive amount of work evaluating a particular acquisition and they feel so much passion for it, and then you've got to stand there and say for whatever reason, we're just not moving forward on this.

But I think the more challenging scenario with any company is an investment that you've made for a number of years and either it is later in its business life or it's really not performing to the metrics that you've established. And then you have to make a tough decision that you have to move away from that investment because there are other things that are more important, especially focusing on the growth and future. That sometimes can be a hard decision.

IF YOU HAD TO PICK THE AREA—TECHNOLOGY INFRASTRUCTURE, NON-STANDARDIZED BUSINESS PROCESSES, TALENT SHORTAGES, AND SO ON—THAT'S MOST IMPORTANT TO BUSINESS PERFORMANCE, WHAT WOULD IT BE?

The people. If I look at people, process and technology, the first thing that I would say is really strong here at Cisco are the people.

We feel that if you have the right talent, especially in a growth environment, they are going to deliver the proper results. If I step back and look into the finance organization, having a strong vision is also important to be able to attract and retain the right talent. And within the finance organization, the vision I have for finance is really where finance leads the business transformation to maximize our company performance.

I look at two components—innovation and operational excellence—and the balance between the two.

Finance plays a key role in helping drive innovation through portfolio management, how we go through a process of selecting the right investments and then also driving accountability with metrics that go along with that to ensure that we're executing on the strategy.

The other side of the equation that I think is important to driving that kind of vision is having operational excellence, having the ability to scale your business in an effective, efficient way. We have to enable that within our business on the finance side and, broadly, on the business side so that we have that flexibility and capability and the right metrics in place to drive productivity.

These together will enable us to maximize our company performance.

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