



## Memorandum

**To:** John Chambers  
CEO, Cisco Systems, Inc.

**From:** HR Manager, Cisco Systems, Inc.

**Date:** October 20, 2004

**Re:** Revising Cisco's "Code of Business Conduct"

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### *Summary*

Today's emphasis on corporate responsibility and business ethics, considered a distraction by some, serves as an opportunity for Cisco to further differentiate itself from the pack. In the wake of a massive corporate shakeout, the likes of Enron, Tyco, and WorldCom have been left behind. Our stakeholders' renewed focus on corporate accountability, corporate social responsibility, and on ethical business practices more generally, provides Cisco the opportunity to do what we do best, lead!

The inherent irony of what I will recommend in the next few pages may not be as improbable as it first seems. As the market leader in networking technology, Cisco owns more than 80% of the global networking infrastructure market. Such market dominance spawns many upstart competitors, and with a 30% share of the core router market, they are led by our so-called "heir apparent,"<sup>1</sup> Juniper Networks. On a seemingly daily basis the business press challenges Cisco's dominance and celebrates Juniper's gains. We have grown accustomed to comparisons of the competition as "David versus Goliath." I believe that in order to seize the opportunity we have before us, the opportunity to create value and lead our industry as the new paragon of ethics, Cisco must look to its challenger Juniper for help.

I propose two key changes to Cisco's existing "Code of Business Conduct" based on Juniper's own "Worldwide Code of Business Conduct and Ethics." Like Juniper, I suggest that we include both a "Non-retaliation Policy" and a section addressing "Responsibilities to our channel and to our competitors." In addition, I recommend featuring a link to Cisco's "Corporate and Social Responsibility" content on our home page.

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<sup>1</sup> Moritz, Scott. "Juniper Taking Market Share from Cisco." TheStreet.com, 22 November, 2000.

## ***Cisco's "Code of Business Conduct"***

Although I was unable to confirm the precise date, no doubt Cisco's "Code" was developed to protect the valuable intellectual property associated with the development of new and proprietary network technology. Founders Sandy Lerner and Len Bosack couldn't have predicted the future commercial value of the technology they developed, but in recent years, Cisco has achieved the highest market capitalization of any company in the world's history! Economic value coupled with exponential growth necessitated an ethical standard to which all employees could be held. Cisco's growth has been astronomical, going from two employees in 1984 to 35,000 in 2004! Today, as we evolve into a more mature, process driven company, we must ensure that our ethical compass, the "Code of Business Conduct," evolves as well.

## ***Juniper's "Worldwide Code of Conduct and Ethics"***

Like Cisco's, Juniper's website requires a few clicks to reach information about its corporate governance and ethics policies. In fact, their ethics policy is buried quite inconspicuously in the "Additional Information" section of the investor relations page. The ethics policy itself is a different story however. After a close examination, I was impressed by its readability, accessibility, and overall content. While Juniper didn't re-invent the wheel so-to-speak, touching on all of the requisite topics including "Conflicts of Interest," "Protecting Confidential and Proprietary Information," and "Securities Laws," they did include a few topics that Cisco's policy does not. Among them are "Protecting the Company's Assets," a "Non-retaliation policy," and "Responsibilities to our Channel and our Competitors."

## ***Suggested Improvements to Cisco's "Code of Business Conduct"***

Cisco's "Code of Business Conduct" begins with an effective overview of integrity and ethics, and provides the reader with a good sense of the company's culture. We recognize our employees as "key to Cisco's success" and we share what guides us: "The fundamental principle that underlies the way we do business at Cisco is good judgment." In truth, the content is well written and appropriate. The suggested additions to our ethics policy are necessitated by the current state of an ever-changing business climate.

### ***Non-retaliation policy***

The aforementioned stakeholder focus on corporate responsibility and ethical business practices necessitates that we provide our employees with mechanisms enabling them to quickly and easily report violations of our "Code of Business Conduct." We established an Ethics Program Office and provide contact information in the "Code" itself. In addition, we provide access to the Audit Committee for "any concerns regarding accounting, internal accounting controls or auditing matters relating to Cisco." The reporting process is clearly defined and user-friendly. Unfortunately, anonymous access

to these tools is often insufficient encouragement for employees to report code violations. Juniper recognized this fact, and chose to include in their “Worldwide Code” a policy of “non-retaliation.” Juniper emphasizes its importance by putting it ahead of all other policies in their code. This sends a strong message to employees that management takes the employees’ obligation to report code violations seriously, and is sensitive to the risks involved in doing so. The Non-retaliation policy offers protection to those employees that come forward to report code violations, threatening the termination of retaliating employees.

*Example of the proposed non-retaliation policy to be included in the “Code Violations/Reporting” section of Cisco’s “Code of Business Conduct.” (Adapted from Juniper Networks “Worldwide Code of Business Conduct and Ethics):*

- *All Cisco employees are responsible for promptly reporting any issue or concern they believe in good faith may constitute a violation of this code or any other Cisco policy. If you believe a violation of this code or any other Cisco policy has occurred, please contact Cisco’s Ethics Program Office. **No discrimination or retaliation against any person who, in good faith, reports such issues or concerns will be tolerated. Anyone who discriminates or retaliates against an individual under such circumstances will be subject to disciplinary action up to and including termination.***

### ***Responsibilities to our competitors and channel partners***

In 2001, in the wake of painful layoffs at Cisco, we dramatically reduced the number of our reseller and supplier partnerships. We did this by demanding payment terms, discounts, and warranties that most of our channel partners couldn’t accommodate. Many had no choice in light of the downturn in the economy. Cisco’s tactics were perceived by many as unethical. “Cisco went from being our best partner in good times to our worst enemy in bad times,” said one former reseller.<sup>2</sup> As a result, with technology spending trending upward, many of the former partners that we squeezed in the downturn are now eager to help rivals like Juniper. Again, consistent with increased stakeholder expectations, it is time to mend fences and repair our reputation by repairing relationships with our channel partners. It can’t hurt to extend an olive branch to our competition as well.

Juniper’s “Worldwide Code” includes a proactive approach towards its competitors, resellers, and suppliers. It addresses what it refers to as “Free and Fair Competition.” The document states that all Juniper employees will abide by “Competition laws,” which help insure against anti-competitive practices like collusion and price discrimination among others. In addition, this section of the “Worldwide Code” explicitly addresses industrial espionage.

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<sup>2</sup> Burrows, Peter. “Cisco’s Comeback.” BusinessWeek online, 24 November, 2003.

In light of Cisco's checkered past vis-à-vis its channel partners, formalizing "free and fair" business practices makes sense. The use of proprietary or confidential information, however obtained, should also be explicitly prohibited in Cisco's "Code."

*Example of the proposed competitor/channel partner policy to be included in the "Responsibilities to our Channel Partners and Competitors" section of Cisco's "Code of Business Conduct." (Adapted from Juniper Networks "Worldwide Code of Business Conduct and Ethics"):*

- *It is Cisco's policy to lawfully compete in the marketplace. Company employees may not steal or unlawfully use the information, material, products, intellectual property, or proprietary or confidential information of anyone including suppliers, customers, business partners or competitors.*
- *No Cisco employee shall at any time or under any circumstances enter into an agreement or understanding, written or oral, express or implied, with any competitor concerning prices, discounts, other terms or conditions of sale, profits or profit margins, costs, allocation of product or geographic markets, allocation of customers, limitations on production, boycotts of customers or suppliers, or bids, or the intent to bid, or even discuss or exchange information on these subjects. Similarly, resellers of company products must remain free to set their own resale terms, including prices, and no Cisco employee may force, coerce or reach any agreement with a reseller about the prices at which Company products will be resold.*

### ***Implementation and Cultural Implications***

The one constant in Cisco's culture is change. Our uncanny ability to succeed, to thrive on change, is a source of competitive advantage for our company. There is no reason therefore, to believe that this situation will be any different. I would argue that these proposed changes to our "Code" will be embraced as positive, as long overdue, and as necessary in light of the increased competition we face in all of the markets in which we do business. We have clearly communicated the expectation, to all employees, that any violations of the "Code" must be reported. For the first time however, we will be telling them that such an act of integrity is important enough in the minds of senior management to warrant a change in the "Code of Business Conduct." We will be telling them that we understand what a difficult decision it can be to report misconduct, and we will be telling them that they will not be "hung out to dry."

The policy addressing our customers and channel partners will no doubt be met with similar enthusiasm, especially by those employed here during the downturn. With this change we will send a signal that we are aware of our past mistakes, and going forward, will not repeat them. In today's sluggish economy, in an industry mired with competitors, signaling that we understand the importance of ethical business dealings and that we value our relationships with our partners shows our stakeholders that we are listening.

Any change, no matter how big or how small, requires planning to be effective. Before we make a change to the “Code of Business Conduct,” it would be wise to communicate directly with each of our 35,000 employees. Whether by email, voicemail, or face to face conversations within divisions and teams, employees should be made aware of the upcoming changes, and the reasoning that supports them. I am confident that both the “Non-retaliation” policy and the “Channel partner” provision will not only be met with enthusiasm, but will generally improve morale by emphasizing the commitment of Cisco senior management to maintaining an ethical workplace.

I appreciate your consideration of the proposed changes to our “Code of Business Conduct,” and I am happy to answer any questions you may have.