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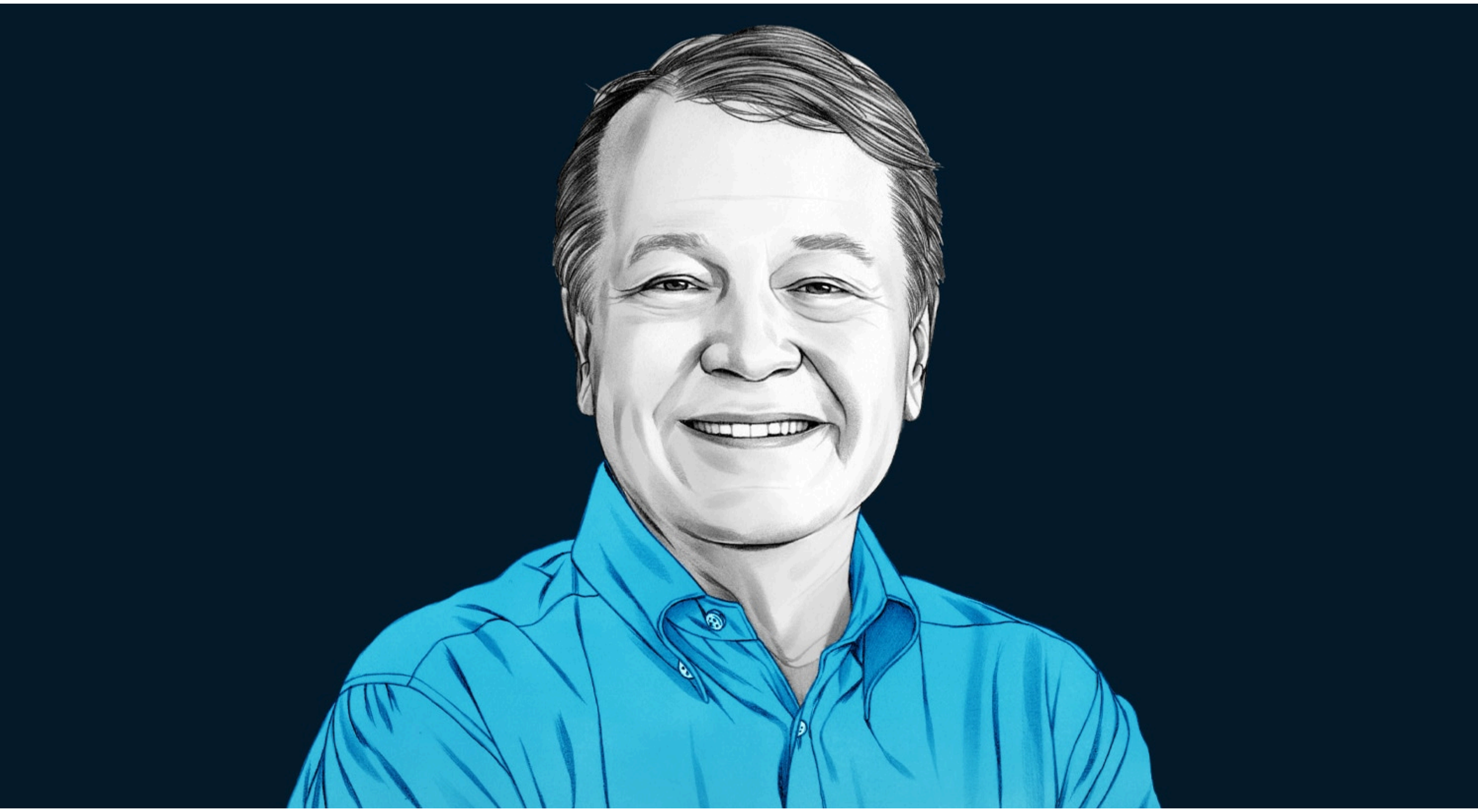
Lead or lag: CEOs must embrace AI at full speed

Renowned business leader John Chambers says AI disruption is this generation’s internet revolution.



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John Chambers, founder and CEO of JC2 Ventures and the former CEO and chairman of Cisco Systems for more than 20 years, grew Cisco to nearly $50 billion in annual revenues, helping companies around the world transform by leveraging the internet. On this episode of the *At the Edge* podcast, he joins host and McKinsey Senior Partner Lareina Yee to discuss the urgent need for companies to adopt AI and what this technological transformation means for the future of business.

The following transcript has been edited for clarity and length.

The crystal ball

Lareina Yee: John, at the end of last year, you wrote your ten predictions for AI in 2025. Tell us about what you see.

John Chambers: There's not been a technology since the internet with this broad of a scope and implementation. In many ways, the implementation of AI is like that of the internet—but it's going to move at five times the speed, with three times the outcome.

The second major prediction is that well-run companies will improve their productivity every year during this decade by 7 to 10 percent. This has huge implications for profitability and for differentiation in the market.

I also said that this will go from very few people using AI in their daily jobs to almost everybody using segments of it by the end of the year.

Transitions that used to take five to seven years will take companies one to three years to do. The US and India will, I think, lead the AI revolution, and that's very much on track. India will become the largest economy in the world. It'll be a breakout year for them. And this time, I think the large cloud and social players will be among the long-term winners.

If we can get beyond tariff uncertainty, which has been the wild card, the second half of the year has the potential to pick up in M&A, IPOs, and venture capital. The one prediction I wish I had hammered home more, even for myself, is that this is a year when agility is a must. Because we talk about the speed of AI—five times the speed and three times the impact—and the same thing is true on geopolitical issues and on key issues we may not have anticipated.

Lareina Yee: One thing you said that may surprise people is that the companies of this generation will succeed in the next. You said we didn't succeed last time with the internet—we didn't see that traditional companies were able to cross that chasm of innovation. Why do you think it's different this time?

John Chambers: The Microsofts of the world, the Googles of the world, the Metas, the Apples, the Amazons—they see it coming. They're not only focused on it, but their top leaders are also making it the number-one priority. They're going to spend maybe $100 billion each going after this market. That's why it's different.

I still believe that young companies are going to be very nimble. They'll do a huge amount of creative innovation and will have an advantage in that enterprise customer and service provider companies will say, "I'd rather have these smaller companies partner with me than risk my data going to a large player, where all of a sudden I'm not doing the AI architecture, I'm not owning my own data. What's my differentiation in this new world?"

I think the innovation will still be there, but some of the large companies will also acquire these smaller ones. M&A is still the primary exit in today's market, as it has been, unfortunately, for the past three years—and is very likely to be again this year, with only a few successful IPOs.

Taking AI cues from big companies

Lareina Yee: Tell us a little bit about why we have such an intensity of capital and speed and how it's affecting our ability to digest all of this innovation.

John Chambers: It is an instant replay of how the internet came about. The internet at first moved slowly, and it was probably five years into its availability before Fidelity basically said, "We're not going to invest in any company, regardless of industry, unless they have an internet strategy and internet implementation."

This time, the market sees it coming. I started saying AI was the future and would be the next behavior transition eight years ago—when people couldn't even spell AI. But with the Microsoft move with OpenAI, all of a sudden, Google and everybody else realized this is not just a new frontier. This could put even well-established companies out of business or cause them to drop off the Fortune 500. As many as 50 to 70 percent of the Fortune 500 won't be on that list ten years from now, in part because of AI implementation. This is the speed you're seeing from these large companies, which we did not see before.

However, customers are also learning the difference. We already have customers saying, "Last year, I had to tell my shareholders and board of directors that I have an AI strategy, and I'd get asked about it. This year, neither the board nor my shareholders want to hear what my strategy is or my proofs of concept. They're saying, 'Show me the money. Show me the results.'"

So that has changed with tremendous speed. When you have a phenomenon—a market transition enabled by new technology—with big money and capital moving rapidly, and innovation, you get what we're seeing now. And if you're not an AI start-up, you probably won't get funded by the venture capital world.

Some companies that may not have been at the top of your list—La Poste in France, for example—are making these types of decisions to move very rapidly with AI. The CEO of 1-800-

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Flowers made the transition to e-commerce. The thought now is, how does he go from reinventing his company with the internet to doing it again with AI? You’re going to see them do that same transformation again.

That is the opportunity in front of us. What the enterprise customers and the telecom companies, and even governments, want is people who can help them get the outcomes they’re seeking. They don’t say, “Tell me about the technology” or “Tell me how to program it.” They’re asking, “How can I get the outcomes, knocking down my silos, that I need to get?”

I think that’s where the game will be won and lost. Will 50 percent or more of the Fortune 500 disappear? Absolutely. Will perhaps even the majority of start-ups not survive? Absolutely. But those that win will do so at a tremendous scale and speed. My parents, who are both doctors, told me, “Deal with the world the way it is, not the way you wish it was.”

This is what’s going to happen. I think our country, our Silicon Valley, and our technology are perhaps the biggest advantages we have. And we’ve got to partner with companies and countries around the world—and I mean truly partner.

Lareina Yee: When I listen to you, I’m terrified and excited at the same time.

John Chambers: Good. If I don’t make you sweat, I’m not doing my job. This is a fundamental change. If they think they’re moving fast enough, they aren’t.

Transforming work and lives

Lareina Yee: Regarding that concept—that even if you feel like you’re running, you’re not moving fast enough—a phrase you used during the internet era and that I hear you using here for AI, it changes the way we work and live. Great enterprises are applying AI. Tell me about the humans at the end of that, the people whose lives will change in terms of how we work and live. What gets you excited about that?

‘My parents, who are both doctors, told me, “Deal with the world the way it is, not the way you wish it was.”’

John Chambers: I know your next question will be, what’s the downside? So let’s talk about what gets me excited first. We have a chance to do our jobs dramatically more effectively and let agentic AI do the mundane parts of our jobs in conjunction with how we work.

Even today, I’d rather do fun things, like this interview with you. But preparation for this can be done with AI. It can probably manage 70 to 80 percent of the prep time.

In terms of the implementation, it also means that if we could increase productivity, our employers could pay us more. Part of that should go to the company’s profits and growth, but part of it should go to our standard of living and increase it.

AI will do everything from curing cancer to addressing rare immune deficiency diseases that we can’t put research behind. AI will, with existing sample bases, figure out what existing drugs—ones that would never get funded by pharmaceutical companies on their own—you can use.

Well-run companies will see a 7 to 10 percent increase in productivity. For exceptional companies, it’s not out of the question to see a 100 percent per year increase in productivity. What areas are really exciting? Customer service—a 30 percent increase in productivity per year in customer service is very doable, with higher productivity and higher customer satisfaction and revenue increases. In recruitment, in legal, and in finance, there will be similar improvements.

This is different from the internet, though: All of this is occurring at the same time and across all industries. With the internet era and other advancements, as we dramatically improved productivity and eliminated maybe half of what a worker does, we’ve been able to create more opportunities, more challenges, and enrich the jobs that people are doing and make them more fun, more productive, and with higher pay.

This transition will occur—as I said—at five times the speed, with three times the impact. I worry that we are not retraining people quickly enough for this new world and what it will require. In schools, we need to train people earlier, before college, on how to use AI.

Next AI steps

Lareina Yee: One of the things we know is that roughly 50 percent of a person's lifetime earnings comes from what they gain on the job, and the rest comes from what they learn at school. Taking this example, John, if you were to advise someone in their mid-career on how to invest in their AI skills, where is a practical place to start?

John Chambers: It's a great question, and a complex one. I'll be very candid: I think the K–12 system in this country is broken. We are not developing the skills that young people need—whether they go to college or not—to get the kind of job creation that we need. And universities are still using some of the same books and professors that trained me decades ago. We have to really transform how education happens. This is where I think leadership needs to say, "We have to make this transition." So if I were one of these leaders now, I would not fear AI. I would say, "This change is going to happen regardless. Let me understand what's possible here." And for employers, they ought to start thinking about, how do I train people not in passing a test but in achieving outcomes so I can really give them the skills they need going forward?

Lareina Yee: You advise the largest companies, start-ups, and so many leaders. If I were in a room with you getting advice, what would you say about leadership in the age of AI?

John Chambers: Whether it's a CEO, a board of directors, or a second-line manager wondering how to prepare for the future, you outline a vision of how the industry's going to change. You explain that when business transformations are driven by new technology, you either move or you become roadkill. Then you say, "Don't fear it—align with it." You explain the mistakes people are going to make.

Often, the CEO says, "We're going to do this," and then they put one person in charge, and then the CEO goes away. But the CEO has to own it and drive it through. During periods of rapid change, consensus management does not work. You've got to say, "Here's where we're going." Then consensus implementation can work.

Even with start-ups, after they're successful, their own teams often resist change. It's part of human nature: We love change when it happens to *you*, not when it happens to *me*. The most important thing is to say, "Here's one of your peers that already achieved a 15 percent increase in productivity." That matters.

Maybe we're talking about a different way of going to market and partnering with consulting firms that can help you in a way they didn't do before, with a focus on outcomes. You want to understand what has changed.

It's no longer just about educating senior management so they can educate the board. The board is already asking, "How do I know my company is advanced in AI? Where is our CEO relative to the market? Are we moving from proofs of concept into implementation? What percentage of this team will actually make the transition?" Because that's their job in this world. It's about ensuring the right leadership and the right strategy.

So this is different from the internet, which occurred over the course of a decade. This is something you're going to see from a cold start crossing the chasm by the end of one year, with most companies saying, "I had better move," and "I had better be well into implementation—or I've got a problem." Will there be spectacular train wrecks and failures? Absolutely.

The future of M&A

Lareina Yee: That is very true—you have to be incredibly clear-eyed about this. Trust is essential and part of human connection. I also think we're redefining our sense of the trust equation with machines—what can we trust, how do we trust, how do we interact with machines in fundamentally different ways?

Much of what you described, John, is how leaders step up at pace in this moment. A lot of that will involve organic sets of initiatives, but M&A is also a huge lever for this type of transformation. You kind of wrote the M&A playbook when you were CEO of Cisco, and you've been so thoughtful about that. I'd love to come back to your lessons on how you think about M&A right now—with the markets, the start-ups, and the companies that are here.

John Chambers: At Cisco in 1993, we described that our innovation engine would not be just doing it ourselves. It would be about acquiring and strategic partnering, both of which failed. So when I announced my first acquisition in '93—even before I was CEO—people said, "You clearly are losing it and maybe you shouldn't be CEO. Acquisitions fail." And yet, that one acquisition, Crescendo [Communications], ended up being a $13 billion division for me. The people who invested early in Cisco got a $15,000 return on a dollar.

Lareina Yee: That's a pretty good return, John.

John Chambers: It's a good return. And we shared it with our employees and created 10,000 millionaires as well. But now, M&A won't just be technology companies acquiring technology companies. There will be established companies acquiring technology companies, and the pipeline on that is actually pretty good. When I did M&A, a month was a long time. I could do it in three days for the company if I had to. I don't recommend that, however, because you need a process that's really capable of moving at that speed for it to occur.

I think it will surprise you that at least half of the M&A deals will involve strategics acquiring AI companies. One example is Cox Communications, which looked at its traditional cable business. It's a good family-held cash flow business, but it's a company that reinvents itself. It moved into automotive and has done well there. Now it's moving into technology—using it both internally and as a system—and it acquired a company called OpenGov, which was one of my companies. I think we will see more strategic investments by traditional enterprise and service provider companies. That kind of activity may account for half of all M&A activity this year.

Start-ups in the age of AI

Lareina Yee: If every person is a technologist in this new age of AI, then every company is a technologist. You might be a bank, a pharmaceutical company, a retailer—but you're actually a technologist. It opens up the field to say, what might you buy? What might you acquire to leapfrog your capabilities? Maybe there's a different paradigm of the assets you need to own to avoid becoming a Fortune 500 company that falls off the list in ten years.

John Chambers: Yes. What assets do you need to own—or, perhaps, what assets do you need to have a strategic relationship with that you can control and influence? It's hard to own or control and influence a trillion-dollar tech company. But it's not hard at all to have a number of start-ups that you get very close to. I'll use La Poste as an example—they literally work with 70 different start-ups in the postal service.

Lareina Yee: Seventy different start-ups? Can you break that down for us?

John Chambers: La Poste has AI start-ups, and it looks at how they can transform its business. It realizes that its core business—delivering letters and brochures—is going to decrease more drastically than it already has. Rather than just saying, "How do I minimize the effects, given how fast this occurs?" it said, "We need to transform ourselves. We need to further accelerate our shift into parcels. We need to move into new services, from data to corporate services to helping elders."

La Poste is one of the most trusted brands in France, and it's looking at how to continue to expand into Europe. And it is driven from the top. The CEO—he's a good friend, so I'm biased—focuses on outcomes and how technology, especially AI, can transform the postal service and, more broadly, its business. This is where the CEO really understood it and drove it through the whole company.

If a global postal service can outexecute Fortune 25 companies, you know what that really means for the Fortune 25.

Reinventing the business model

Lareina Yee: I think you just dropped the challenge mic right there. So if someone is now feeling a little nervous because the postal service in France is outpacing them in this race, what advice would you give CEOs? Then let's talk about other types of personas. You're so amazing at helping people see what's right in front of them.

John Chambers: The first part of the advice is, make no mistake, when you tell a company that 50 to 70 percent of the Fortune 500 won't be on the list in a decade, you're talking about survival. People move quicker out of fear and survival than they do, sometimes, out of greed. What you want is the ability to say, "Here's what we could do together, and here's how we move forward." Forward, I think, is the key element.

So my advice is that working together is the way to go. It means thinking about how you do this and learning from others. And realizing that you don't want proofs of concept; you want proof of results. You have to move faster, and you have to integrate this with results. And the organizational structure you have today will not work in the future. You can't do this in silos.

Lareina Yee: I love your concept of proof of results. It's a very different way of leading to say, "What's the business result that we're looking for, and then how do we power technology against that?"

John Chambers: CEOs have to reinvent themselves. If you're leading people the way you did five to ten years ago, you're already struggling with this next generation of technology and business model change.

Lareina Yee: All of us are learning together, right? That's also where the energy comes from right now.

A couple of rapid-fire questions. You've talked before about how your family, your parents, were huge inspirations, but also your grandkids. Tell us a little bit about where you are learning today.

John Chambers: I think all of us need sources of wisdom—people who have seen the movie before. It's one of the things we can do in companies and otherwise: Tap the generation that's done it and seen the changes and learn about some of their key lessons.

Shimon Peres taught me to think in many ways—including like a teenager. There's a lot of merit to that. I've learned from both of my grandkids. My grandson has taught me focus—and tremendous intensity—by being very focused on sports, for example. When he focuses on baseball, he focuses at 100 percent: the hitting style, the coach, the practice, the intensity. Same thing for basketball and football. He is in the moment, totally committed. No fear in going for it.

My granddaughter is a very good diver, and she's very focused on it. She also participates in high school moot court and really prepares for it. One of the things I take from both of them is: When you do something, really focus on it, especially during periods of change; go in with everything you've got.

That's a lesson that isn't just a great reminder for me; it's something I wish I'd done earlier. We learn from those that have more experience than us, and we learn from the next generation challenging the status quo—which they will always do. Especially in periods of rapid transition, you want to listen very carefully, and then have the courage to move and get very focused.

John Chambers is the founder and CEO of JC2 Ventures and the former CEO and chairman of Cisco Systems.
Lareina Yee is a director of the McKinsey Global Institute and a senior partner in McKinsey's Bay Area office.