

# From the Executive Director

MIKE NAHAN

## What Makes Silicon Valley Great

**W**HAT makes Silicon Valley in California such a success?

The world is scattered with hi-tech parks and failed imitations, yet there is nothing particularly mysterious about the Valley. Its inhabitants are by nature hardly secretive or poorly informed. The Valley has had a veritable horde of researchers combing its every nook and cranny. One such researcher is Professor Anna-Lee Saxenian of the University of California, Berkeley. Her book, *Regional Advantage: Culture and Competition in Silicon Valley and Route 128* (Harvard University Press, 1994), lucidly presents the keys to the Valley's success.

The Valley's success has had relatively little to do with government leadership. Having Stanford University (a private university) helped, but many other places had first-rate universities. The Cold War helped by increasing the demand for chips and computers, but the military has never been a dominant consumer of the Valley's wares. Government research funding helped, but it was never a major or driving force (though the release of skilled personnel from the downsized military has been a major 'peace dividend'). On only one occasion did Silicon Valley seek help from Washington—and most in the Valley still view the resulting Semiconductor Trade Agreement with shame.

Governments' main contribution—one that most imitators have failed to recognize—was masterful inactivity. They did not do things that would have messed it up, such as bailing out high-tech firms, putting up risk money or taking equity. They also played a crucial role with legislation that protected property, allowed risk-taking and the free flow of people and ideas as well as continuous change.

The real key to the Valley's success has been the presence of entre-



preneurs and a culture that attracts and keeps them. Some ingredients of this culture outlined by Professor Saxenian and relevant to would-be imitators are:

*Enthusiasm for Change.* The Valley thrives on change. Its firms are constantly evolving. Even the most venerable of Valley firms—Hewlett-Packard—has metamorphosed countless times. The Valley's workforce is also constantly on the move; changing firms, changing roles and taking on new skills. The technology market changes so quickly that any company or person who fails to adjust becomes obsolete and, as they say in the Valley, 'either we obsolete ourselves, or the competition will'.

*Risk-taking.* People in the Valley thrive on taking risk. Whereas in other places investors and workers seek to shed or minimize risk, the Valley's capitalists actively seek out risky ventures and the more the better. The Valley investors operate on the idea that, out of every 20 ventures, four will go bankrupt, six will stay in business but lose money, six will make a modest return, three will do well and one will hit the jackpot. Since failure goes with risk-taking, the Valley also tolerates failure. As Professor Saxenian describes it, 'in the Valley bankruptcy is treated like a duelling scar in a Prussian officers' mess'.

*Openness.* The Valley is open to migrants, women, the young and the different. Over 40 per cent of engineers working in the Valley are mi-

grants. There are more women CEOs in the Valley than anywhere else on Earth. Age, experience and appearance—which elsewhere get people promoted—are no help in the Valley.

*Obsessive Capitalists.* The Valley was founded by engineers who, though very interested in making money, were obsessed with the technology. As a result technology—the 'cool idea'—takes priority while not obscuring the aim of getting rich.

Professor Saxenian identifies the main lesson: you cannot regard the Valley as a machine where raw materials are poured into one end and firms and high-paying jobs pour out the other end. Rather it is a social ecosystem which needs the right soil, right climate and time to grow. Something no planner can make.

The failure of would-be imitators lies with their inability to accept the lessons of the Valley—particularly the role that it suggests for government.

One would expect the Howard Government and the Business Council of Australia (BCA) to have little trouble embracing the Valley's lessons about getting the fundamentals right. The Howard Government has reaped the political and economic benefits of doing so on fiscal policy, monetary policy and financial sector reform. It has had to pull the plug on the Multi-Function Polis, and therefore knows all about failed high-tech visions.

The BCA not only includes some of the major corporate players from the Valley such as Hewlett-Packard, but has been, in the past, the leading advocate of these lessons.

Yet the omens are not good. The Government and the BCA have commissioned a group led by Professor Peter Sheehan—the brains behind the failed Victorian Economic Development Commission—to craft an Innovation Strategy to present to an Innovation Summit. Such a Summit could be a good idea. A back-to-the-VEDC-revisited-future with government largesse and cheque-book leadership rather than masterful inactivity is definitely not.

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