Social Networks in Silicon Valley
The most crucial aspect of Silicon Valley is its networks. There is no proposition so universally agreed upon and so little studied. We see two main reasons for this. The first is that the analysis of social networks has been mainly the province of sociologists, but only in recent years have they become interested in industrial organization. The second is that methods for systematic study of social networks are of very recent origin.¹

Sociologists’ earlier theoretical concerns led them to focus network analysis on small groups (like children in schools). But more recent work has treated larger groups and even entire industries (see, e.g., Granovetter and McGuire 1998). In this chapter we outline a project in progress, “Networks of Silicon Valley.” Ultimately, we hope to achieve a systematic mapping of the Valley’s networks and their evolution over time. This means also accounting for how networks of individuals literally outside the Valley’s industrial activity, but playing a vital role, articulate with and sometimes become “insiders.” The most obvious such groups are educators, venture capitalists, lawyers, headhunters, engineers, and industrial/civic associations and trade groups. Financial, commercial, educational, and political institutions are linked not only to information technology firms, but also to one another in this region, since industries do not arise and exist in a vacuum, but in a distinct institutional context. Variations in these contexts may well explain why the myriad attempts to replicate Silicon Valley in utterly different contexts, by copying only the fea-
tures of its firms, are rarely fruitful. This broader account is essential for understanding how regional economies operate. The distinctive inclination of sociologists is to investigate how different institutional arenas mesh with one another, rather than focusing on the technical, economic, legal, educational, or political aspects of a situation. In Silicon Valley, where such linkages are an important and distinctive feature of economic success, this is an especially vital topic.

Thus, in this chapter we will introduce some key ideas about social networks, sketch some of the vital institutional sectors in Silicon Valley where they operate, and present an initial exploration of the formal analysis of how these sectors articulate with one another.

**SOCIAL NETWORKS IN THE ECONOMY**

A “social network” can be defined as a set of nodes or actors (persons or organizations) linked by social relationships or ties of a specified type. A tie or relation between two actors has both strength and content. The content might include information, advice, or friendship, shared interest or membership, and typically some level of trust. The level of trust in a tie is crucial, in Silicon Valley as elsewhere. Two aspects of social networks affect trust. One is “relational”—having to do with the particular history of that tie, which produces conceptions of what each actor owes to the other. The other is “structural”: some network structures make it easier than others do for people to form trusting relationships and avoid malfeasance. For example, a dense network with many connections makes information on the good and bad aspects of one’s reputation spread more easily.

An extensive literature shows the importance of social networks in the economy—from small start-up companies to large multinationals, from emerging industries such as biotechnology to traditional ones such as automobiles, from regional industrial districts such as Silicon Valley to national and supranational entities such as the European Union. (For a general review, see Powell and Smith-Doerr 1994.) In Silicon Valley, networks have special importance in the movement of labor, the evolution of influence and power, and the actual production of innovation.
Networks of Access and Opportunity

One of the most important aspects of Silicon Valley is the way its labor market works. Extensive labor mobility creates rapidly shifting and permeable firm and institutional boundaries and dense personal networks across the technical and professional population. The ability of Silicon Valley to restructure itself when conditions change through rapid and frequent reshuffling of organizational and institutional boundaries and members (which, in the Eastern European context, Stark [1996] has called a “recombinant” process) is one of the factors that underlie the dominance of Silicon Valley in the new economy.

Scholars have written extensively on the role of social networks in allocating labor (see Granovetter 1995a). Recruitment often occurs not through close friends, but from what Granovetter (1973) called the “strength of weak ties.” Close friends know the same people you do, whereas acquaintances are better bridges to new contacts and nonredundant information. Firms benefit from employees’ social networks, and employers are thus willing to pay monetary bonuses to them for successful referrals (Fernandez and Weinberg 1997; Fernandez, Castilla, and Moore 2000). Workers’ social connections are considered resources that yield economic returns in the form of better hiring outcomes. Employees hired though social networks tend to quit less, experience faster mobility inside an organization, and perform better than those recruited through other means.

Commenting on Silicon Valley’s exceptionally high rates of interfirm mobility, Saxenian (1994) has argued that “The region’s engineers developed loyalties to each other and to advancing technology, rather than to individual firms or even industries” (28). The result of this unique culture and vast network of weak ties is that engineers in the Valley move frequently from one project or company to another. High mobility reinforces the dense networks, strengthening their role as channels through which technical and market information, as well as other intangibles—organizational culture and trust, for example—are diffused and shared among firms.

Engineers not only hop around firms in the same industry; they also move from one industry and/or institutional sector to another—from technical firms to venture capital firms or to university research centers—creating cross-institutional ties and loosely integrating different institutional nodes in Silicon
Valley. Many venture capitalists, for example, once worked in technical sectors of the Valley. Eugene Kleiner, the founder of the preeminent venture capital firm, Kleiner Perkins Caufield & Byers, had worked for Fairchild Semiconductor before moving on to finance. Similarly, John Doerr had been an Intel employee prior to his excursion into venture capital, and Regis McKenna had worked at National Semiconductor before founding his own, now famous, public relations firm.

**Networks of Power and Influence**

In addition to mediating labor flows, networks can also be an important source of power and influence. Research on interlocking directorates among financial and industrial corporations (e.g., Mintz and Schwartz 1985) shows how influence can flow from financial institutions to the industrial corporations to which they lend. In Silicon Valley, venture capitalists and lawyers play more than their conventional roles; they influence the structure and future development of their client companies. The lawyers are deal makers as well as counselors (Suchman 1994; Suchman and Cahill 1996). As deal makers, “Silicon Valley attorneys employ their connections in the local business community to link clients with various transactional partners” (Suchman 1994, 96). For example, lawyers help by providing connections to venture capital, giving Valley firms access to their accumulated knowledge about the region and high-technology industries, and offering general business advice, like conventional business consultants (100).

Venture capitalists not only provide necessary financial resources to start-ups and spin-offs, but often play the multiple roles of broker, management consultant, and recruiter. Their vested interest in the firms for which they provide financial resources makes them more likely to intervene in the operations of their start-ups. From the knowledge of high technology that they have accumulated from their broad portfolios of successes and failures, venture capitalists offer invaluable advice as to what does and does not work. Many start-ups and spin-offs are founded by engineers who are naive about management; venture capitalists can access an informal and formal network of experts to further the long-term viability of newly created firms. Further, venture capitalists often (re)organize the boards of directors of their start-ups, sometimes reduc-
ing the role of original founders and even severing the original founders from their own creation; Cisco Systems and Silicon Graphics were two famous cases.

**Networks of Production and Innovation**

Finally, social networks function as a distinct governance mechanism, a “social glue” that binds actors and firms together into a coherent system. In high-technology industries in particular, social networks help transmit information and knowledge among different firms and individuals and produce innovation. In Silicon Valley, getting the right product out at the right time has become crucial for the survival and growth of a firm in a rapidly changing environment. Networks enhance the capacity to do this by enabling people to mobilize capital, find relevant and reliable information quickly, and link to appropriate outlets. Innovation is so central to high-technology industry that it is not an exaggeration to say that effective social networks determine a firm’s chance for survival.

Such a network governance structure is a typical way to regulate the inter-firm alliance practices, such as collaborative manufacturing, found in industrial districts. Piore and Sabel (1984) argue that a new logic of production—“flexible specialization”—emerged as a challenge to mass production once markets for standardized goods were saturated, and higher quality and more specialized goods attracted consumers. Into this volatile environment have stepped flexible producers who can respond quickly to changing market conditions. To meet the demands of this changing marketplace, firms adopt new modes of organization that spread production across diversified interfirm linkages of suppliers, subcontractors, and end users. In the regions of north central Italy and southwestern Germany, for example, a complex division of labor among small and medium-sized companies has developed, supported by local political, financial, and educational institutions, which allows firms to produce a wide range of industrial products (Herrigel 1996).

Saxenian (1994) shows that Silicon Valley shares many of the characteristics of European industrial districts, and thus promotes collective learning among specialist producers of interrelated technologies. In this decentralized system, dense social networks and open labor markets encourage entrepre-
neurship and the ongoing mobilization of resources. Companies compete intensely, but simultaneously learn about changing markets and technologies through informal communications, collaborative projects, and common ties to research associations and universities. High rates of job mobility spread technology, promote the recombination of skills and capital, and aid the region’s development. Silicon Valley companies, just as those in Germany and Italy, trade with the whole world, but the core of knowledge and production remains local. One way the Valley accomplishes this recombination of knowledge and capital is through spin-offs, which have contributed to the construction of dense social networks of entrepreneurs, inventors, and other institutional actors.

Part of the importance of these spin-offs is that most organizations resist changing their core technologies and structures (compare Stinchcombe 1965; Hannan and Freeman 1977; 1984). This resistance based on past success is what Clayton Christensen calls the “innovator’s dilemma” (Christensen 1997). Thus, upgrading of a regional economy occurs especially through new organizations rather than through transformation of existing ones. While the founders of spin-offs explore new ideas and possibilities, they build upon the know-how they have gained from previous employment. In this regard, ties between new spin-offs and previous organizations through founders are an important way in which information and experience are transmitted, as we show in detail in the network analysis of the following section. Any region whose institutions or networks resist spin-offs or new entrants may face stagnation. Larson’s (1992) and Nohria’s (1992) research on the development of successful start-up companies stresses that social networks to other firms are a means for quick access to resources and know-how that cannot be produced internally.

**NETWORKS AND INSTITUTIONS**

In this part, we sketch the application of social network ideas and methods to some of the main institutional sectors of the Silicon Valley industrial district, including the region’s educational, industrial, financial, and legal activities. We want to know how Silicon Valley’s networks attained their current structure—what growth process took them from the modest and small-scale enterprise of
William Shockley’s semiconductor laboratory in 1957, for example, to the world-dominating structures of the early twenty-first century? We address such questions by illustrating how formal techniques of network analysis can uncover patterns not easily found by casual inspection. Our emphasis will be not only on networks within a sector, but also on how networks from different sectors mesh with one another.

**Networks and Genealogy: A Semiconductor Industry Case Study**

Part of the legend of Silicon Valley is the story of how Shockley’s company begat Fairchild Semiconductor via defection of the “Traitorous Eight,” and how Fairchild later begat the many “Fairchildren” firms such as Intel, which in turn gave birth to still new generations of important firms. Many Silicon Valley firms have a “genealogy chart,” first developed by journalist Don Hoefler and later maintained by the trade association SEMI, hanging in their lobbies, tracing their ancestry back to Fairchild. In this section, we undertake the first systematic analysis of the data in this chart, by techniques of network analysis and network visualization. By doing so we hope to illuminate the continuing significance of patterns laid down in the initial set of foundings and spin-offs that gave the Valley its distinctive industrial organization.

**History of the semiconductor industry.** In 1947, William J. Shockley and his collaborators at Bell Laboratories in New Jersey introduced the first successful transistor, which would eventually earn them the Nobel prize. This was important for Silicon Valley because Shockley, a Stanford graduate, with the encouragement of Frederick Terman, Stanford’s legendary engineering dean and provost, decided to start his own company in his native Palo Alto to capitalize on the invention (Hoefler 1971; Riordan and Hoddeson 1997).

Shockley’s ability to spot and recruit talented people contributed to the growth of what would eventually become Silicon Valley. Shockley Semiconductor Laboratories was founded in February of 1956. Drawing on established firms such as Raytheon, Motorola, and Philco, and on top engineering and science programs such as those at MIT and Cal Tech, Shockley soon had the core of the firm, and of the nascent semiconductor industry, in place. Robert
Noyce and Gordon Moore, both in their late twenties, would later go on to found Fairchild Semiconductor and Intel. In addition to Noyce and Moore, by mid-1956 Shockley had successfully recruited Jay Last and Sheldon Roberts from MIT and Dow Chemical Company, respectively.

Despite his ability to recruit, Shockley’s eccentric and authoritarian managerial style did not match his Nobel laureate stature. Both Last and Roberts thus joined Noyce, Moore, Julius Blank, Jean Hoerni, Victor Grinich, and Eugene Kleiner to become the “T raitorous Eight” who left Shockley to form Fairchild Semiconductor in 1957, indelibly changing the future development of Silicon Valley’s semiconductor industry. (For a full historical account, see Chapter 8.)

At Fairchild, the integrated circuit was first developed sufficiently for commercial production, with Noyce receiving the first patent in 1961. But the “T raitorous Eight” contributed more to Silicon Valley than a breakthrough in technology. Robert Noyce had a vision for this newly emerging industry that explicitly rejected the hierarchical East Coast corporate culture (Wolfe 1983). For example, there was no reserved parking at Fairchild, which was conceived of as a democratic community rather than a hierarchical workplace. And this new approach diffused as employees from Fairchild spun off to start their own companies. Everywhere the Fairchild émigrés went, they took the “Noyce approach” with them. It was not enough to start up a company; you had to start up a community in which there were no social distinctions. The atmosphere of the new companies was so democratic, it startled businessmen from the East. As Tom Wolfe reported:

Some fifty-five-year-old biggie with his jowls swelling up smoothly from out of his F. R. Tripeler modified-spread white collar and silk jacquard print necktie would call up from GE or RCA and say, “This is Harold B. Thatchwaite,” and the twenty-three-year-old secretary on the other end of the line, out in the Silicon Valley, would say in one of those sunny blonde pale-blue-eyed California voices: “Just a minute, Hal, Jack will be right with you.” And once he got to California and met this Jack for the first time, there would be, the CEO himself, all of thirty-three years old, wearing no jacket, no necktie, just a checked shirt, khaki pants, and a pair of moccasins with welted seams the size of jumper cables. Naturally the first sounds out of Jack’s mouth would be: “Hi, Hal.” (1983, 360–61)
And, of course, there was the start-up culture. Fairchild engineers, even those who were among the founders, started their own companies—often in direct competition with their mother company. Fairchild spin-offs produced another round of spin-offs and spin-offs of spin-offs and so on. The spin-off of all spin-offs was founded in 1968 when Noyce and Moore, with Andy Grove, left Fairchild to start Intel. Their intention was not to compete with Fairchild and other already-established semiconductor firms, but to carve out a new niche, in semiconductor memory. Intel grew to become a company with sales of $66 million by 1973, employing more than two thousand workers (Wolfe 1983).

The early history of the semiconductor industry is replete with similar stories of spin-offs, some encouraged and some discouraged by parent companies. These spin-offs led to rapid technological breakthroughs created by networks of scientists and engineers building on the accumulated knowledge of their predecessors, and their experience in previous firms.

Social network analysis of the semiconductor industry. Although all accounts stress how crucial these spin-offs were for the spectacular stream of innovation that came from this region, there has been no systematic analysis of this spin-off process. Our own research on this is at an early stage, but it is interesting to see what can be gleaned from the well-known Semiconductor Genealogy Chart, originally developed by journalist Don Hoefer (with the concept by Jack Yelverton), and later maintained by the trade association Semiconductor Equipment and Materials International, or SEMI (updated information provided by H.T.E. Management). This chart indicates that more than 372 people started and built the semiconductor industry since 1947.

In the chart, we have identified 129 firms (including spin-offs, spin-offs of spin-offs, etc.) that existed between 1947 and 1986, after which the chart was no longer updated. In Figure 11.1 we plot the number of companies founded each year from 1947 to 1986.

We use a computer graphics program called MAGE (Richardson and Richardson 1992), which displays dynamic three-dimensional images to explore and evaluate the social structure of engineers, inventors, and entrepreneurs. The resulting image represents the social network as a set of actors and the ties between them. Such a picture is like an X-ray, laying bare the struc-
ture of social ties, but needing a substantial amount of interpretation, and often raising more questions than it answers. Thus, social network analysts are “social radiologists,” who use such pictures as heuristic devices to initiate more systematic probes of how structures arise and change over time, and as preludes to more complex quantitative analyses (such as those described in Wasserman and Faust 1994).

The graph of those who started and built the semiconductor industry in Silicon Valley is presented in Figure 11.2. Each point (or “node”) represents a person, and the lines connecting the points represent the ties. Since the presence of a tie between two people is coded from the semiconductor industry genealogy chart, it means that they were co-founders of at least one Silicon Valley semiconductor company. Thus, for any two persons in the sample, a tie is either present or absent.

Not surprisingly, important actors in the semiconductor industry such as Jean Hoerni, Julius Blank, Eugene Kleiner, Jay Last, and Sheldon Roberts are the ones who are connected to more than ten people in the network. Shockley, on the other hand, appears with quite a low average number of co-founder ties. One important task is to discover how a person’s position in a network may both reflect and confer or reinforce a position of influence. Roughly speaking, actors who are more central, in the sense of having more ties to others (“degree centrality”), or being crucial linkages that actors must go through to reach others (“betweenness centrality”), can often be shown to be more in-

Figure 11.1. Number of new companies in the semiconductor industry founded each year, 1947–86.
Jean Hoerni is the actor with the highest betweenness centrality in the network we computed from the genealogy chart. The analysis also highlights other less well known actors who appear to be quite central in the development of the semiconductor social network. Among these are Gifford, founder of companies such as Advanced Micro Devices in 1969 and later Maxim Integrated Products in 1983; Araquistain, Baldwin, Bower, Breene, Elbing, Koss, Marchman, Valdes, and Wiesner, all founders of Rheem Semiconductor in 1959 (and some of whom also worked for Fairchild Semiconductor); and, finally, Weindorf, who had previously worked for Fairchild Semiconductor and Rheem Semiconductor. One virtue of network analysis is that in its impartial way it may point to the need to look more closely at individuals whose centrality has not been captured in the many impressionistic and journalistic accounts of Silicon Valley history.

Figure 11.2. The founders of the semiconductor industry.

First conceived by Dan Hoeller, later maintained by SEMI.
The meaning of centrality, however, depends on a network’s definition. In a network of ties computed at a single point in time, individuals with the highest centrality are quite likely to be powerful and influential by virtue of their position, because of which much vital information must flow through them before it reaches others. But the network we display here, where ties indicate co-founding, is quite different, as it spans nearly thirty years. Here, central individuals are those who provided vital linkages among industry sectors, making Silicon Valley the “small world” that it is. Though this was a crucial role in shaping the Valley’s unique character, those who played it need not have been highly visible. Recent research on the “small world problem” (known to the general public as the issue of “six degrees of separation”) shows that a remarkably small number of strategically placed ties can dramatically increase the connectivity of a network (see Watts 1999).^{6}

**Higher Education and University-Industry Networks: The Role of Stanford**

To study the evolution of connectedness among industrial firms in Silicon Valley is already a challenge. But as we stress repeatedly, much of what is unique in this region and accounts for its “edge” is how industry relates to other sectors. In this section and the next, we choose two such sectors—education and venture capital—and discuss how the social networks within these sectors and with Silicon Valley industry helped shape outcomes. This is followed by an illustrative network analysis of IPOs that shows how the different sectors work together on a particular activity. A fuller account would treat other institutional sectors such as law, public relations, and real estate, and give much more extensive attention to connections. Here, however, we want simply to sketch out the issues.

The educational sector has been especially vital because the constant movement back and forth between industry and university has blurred the boundaries of both and created elaborate social networks that keep academic research focused on practical problems, and infuse industrial activity with up-to-date science. Though a number of educational organizations have been important in this way, we focus on the key actor in Silicon Valley’s early history, Stanford University.
In the 1950s, two institutional innovations—the University Honors Cooperative Program and the Stanford Industrial Park—brought together university researchers and nascent industry interests. Stanford Industrial Park (now called Stanford Research Park), conceived by Stanford provost Frederick Terman and officially founded in 1951, was the first of its kind. No university had previously allotted large tracts of its own land for industrial uses (in part because few other universities had Stanford’s more than 8,000 acres of land to allot). Varian Associates moved its R&D and administrative operations to Stanford in the late 1940s, and other companies such as General Electric, Eastman Kodak, Admiral Corporation, Hewlett-Packard, and Watkins-Johnson joined Varian. By 1962 there were 25 companies in the park (Saxenian 1994, 23–24). Although the park is still home to many influential players in the Valley, such as the law firm Wilson Sonsini Goodrich & Rosati and the legendary Xerox Palo Alto Research Center, Silicon Valley has outgrown its birthplace.

The Honors Cooperative Program, founded by Frederick Terman in 1953, made it possible for local companies to send their engineers and scientists to pursue advanced degrees at Stanford as part-time students while working full-time. The program “strengthened the ties between firms and the university and allowed engineers to keep up to date technically and to build professional contacts” (Saxenian 1994, 23).7

In addition, Stanford students and faculty formed new companies, such as Hewlett-Packard, Sun Microsystems, and Yahoo!, among many others, that were crucial to regional growth. As Silicon Valley matured, research and commercial interests proliferated and the business community came to assume the role of innovator, developing and commercializing innovations. The university’s emphasis has shifted to maintaining its relations with already-established firms as the source of cutting-edge scientific knowledge and expert labor. Currently, innovative ideas produced at Stanford find their way to industries through licensing via the Stanford Office of Technology Licensing and various research centers that have proliferated over the past two decades. Further, given Stanford’s prominent role in the evolution of Silicon Valley and its accumulated ties to the region’s different sectors, Stanford is the one place where outsiders can gather information about Silicon Valley. It is also an important port of entry to the Valley for many high-technology firms from overseas...
through its various affiliates programs. Now foreign firms can send their employees to Stanford to study Silicon Valley for a nominal fee. In fact, one of Stanford’s main current roles is to attract people from all over the world to the region, which is a crucial matter, as Silicon Valley start-ups are increasingly formed by nationals of foreign countries (see Chapter 12). It does so in part from its reputation as past midwife of successful firms, and in part from the international reputation of its engineering departments. The School of Engineering, typically rated at or near first in the United States, regularly provides the region with a highly skilled labor force and attracts top researchers from around the United States and the world.

One of the crucial links between the university and the surrounding Silicon Valley community is provided by its approximately 50 research centers, which provide for the university and the business community a forum in which they can maintain close contact. These centers also make it easier for foreign companies aspiring to learn the “Silicon Valley way” to introduce themselves into its sometimes arcane culture. The centers and programs are surprisingly informal and decentralized. Though they must be approved by the university administration, the university is not directly involved in their decision-making processes and their daily workings. They receive little financial support from the university, raising funds internally through corporate memberships.

The recruitment of firms to these centers occurs through already-established personal networks between professors or researchers and businesses. In particular, a research center director’s role is to identify companies that are interested in the center’s activities and to set up collaborations with the Stanford faculty. Usually a director has extensive experience working with both industry and universities. For example, the director of the Center for Integrated Facilities Engineering had worked both in industry and for various universities before joining Stanford University to set up the center, and had particular experience working in the area of university-industry collaboration.

Research centers are avenues through which information about the current state of research activities at Stanford flows to industry. Most member companies of research centers or affiliates programs work through particular faculty members as their liaisons to Stanford; through the liaisons they have early access to research reports. In addition, companies are invited to confer-
ences held on campus and can have individual meetings when needed. They can set up courses geared specifically toward their design problems through the affiliates programs. This is a cost-effective way to tackle specific problems with the help of cutting-edge researchers and engineers. And some affiliates programs include opportunities to send their employees as corporate visiting scholars both to the programs and to an academic department. As a result, companies learn more about students and researchers who work on their problems, and some companies exploit this opportunity as a recruiting tool.

These centers and programs also provide funding opportunities for researchers in the Stanford community. Funding is used to support graduate students, to purchase equipment, and to support administrative assistants. Money is received from industry in the form of affiliates’ fees, which do not go directly to the researchers, but through research centers. Compared to most government funding sources, the process of funding research is much more efficient and informal, and entails far less “overhead” cost than traditional grants.

The research centers provide a means by which university researchers can develop or commercialize their ideas. Here, researchers and faculty can legitimately pursue applied knowledge, which is at times difficult to do in an institution of higher education. This is not only allowed but encouraged, as the primary role of the centers and programs is to connect the university and industry. Through meetings such as annual affiliates days and other public events hosted by the centers, to which previous and current affiliates and individuals who have been involved in the program or centers are invited, industry and university come into direct contact with each other with the common purpose of university-industry cooperation. Student internship opportunities are provided through networks created in the research centers and programs. Professors can utilize concrete issues, topics, and materials brought to them by industry for their classes. Students enjoy and benefit from learning by doing.8 This, in turn, helps departments to attract highly motivated students.

Key individuals move back and forth from industry to academic positions in research centers and affiliates programs. For example, a former director of one Stanford interdisciplinary research center, who now works for a high-tech company in the region, had also worked in industry before joining the center. As the industry liaison for the center, his past experiences and networks in industry were invaluable in developing its industry sponsorship program and in
raising funds for the center." Moreover, his career and current relationship with this center typify the evolving Stanford–Silicon Valley relationship. After receiving a Ph.D. in computer science, he joined a renowned research organization in Silicon Valley, and then a large industrial corporation. He subsequently started his own companies, one of which is now publicly traded on NASDAQ. Then he did consulting work for financial companies in the region. Years later, he joined the Stanford center to develop the affiliates program. Now back in industry, he still maintains an informal relationship with the center and can imagine returning some day.

Speaking more abstractly, the personnel of these research centers constitute “boundary spanning units” (Hirsch 1972), a category of organizational actor crucial in situations in which brokers must connect disparate institutional sectors. The centers create social networks that ramify into every corner of the region’s high-tech industry. Because of the proliferation of such boundary-spanning units, unusual in institutions of higher education, Stanford University continues to be a central forum for both academic and industrial researchers to benefit from the exchange of information.

**Key Financial Institutions**

It is widely agreed that the venture capital industry has been the financial engine of Silicon Valley. Harmon reflects a popular belief in asserting that the venture capitalists (VCs in finance parlance) are the new power brokers, banks, management providers, gurus, and mothers who hold the hands of the newbie idea-ites [the founders of new companies], taking them past the training wheels stage into rocket racers. It is smart money, the people and their capital. It has to be smart—there is no time to make the wrong moves in a world where every great idea has a dozen imitators in sixty seconds. (Harmon 1999, 3–4)

Wilson’s 1985 study is probably the first systematic analysis of American venture capital. In his words, “Born in New York, nurtured in Boston, and almost smothered in Washington, venture capital did not really come of age until it moved to California and joined forces with the brash young technologists who were using bits of silicon to create an information revolution as pro-
found as the industrial revolution a century earlier” (Wilson 1985, 31). With the formation of venture capital firms such as Draper, Gaither & Anderson, and Western Business Assistance Corporation in 1958, the basic foundations of today’s venture structure were laid.

Experienced venture capitalists now manage billions of dollars. Half of the venture capital firms in the United States are now in Silicon Valley, which attracted $3.3 billion in venture capital funding in 1998 alone. This is about half of the venture capital invested in the top ten technology regions of the United States, which include Atlanta, Austin, Boston, Dallas, Denver, Phoenix, Portland, Raleigh-Durham, Salt Lake City, and Seattle (Joint Venture: Silicon Valley Network, “Index of Silicon Valley,” various issues).

While Silicon Valley industry attracted venture capital firms, the presence of venture capitalists attracted entrepreneurs from all over the country and the world. Employment grew accordingly, and in 1998 Silicon Valley added an estimated 19,400 new jobs. The number of initial public offerings (IPOs) and mergers and acquisitions (M&As) in Silicon Valley indicates how successful entrepreneurship and companies are in the region. The Valley still produces the highest number of initial public offerings (IPOs) in the country (Joint Venture 1999). Sand Hill Road, in Menlo Park, California, is now the “de facto headquarters for venture capital activity on the West Coast” (Saxenian 1994, 40). Today it is probably the most powerful venture capital enclave in the country and a center of gravity for international venture capital.

Networks of engineers, entrepreneurs, and wealthy investors were crucial to the development of venture capital. These networks were fed by major inflows of technical entrepreneurs, venture capitalists, management talent, and supporting services from other regions. By the early 1980s, Silicon Valley venture capital was dominated by individuals who had migrated from industry rather than from backgrounds in finance (Wilson 1985, 50–51). For this reason, venture capitalists play a more active role in Silicon Valley than in other regions of the United States and the world (Saxenian 1994; Florida and Kenney 1987; Nohria 1992).

**History of venture capital in Silicon Valley.** In the 1950s, when the practice of venture capital did not yet have a name, the patterns for investment were established by rich men pursuing some risk investing in an informal but
disciplined way. Three stand out among those who began to put risk capital on a more permanent institutional base. Laurance S. Rockefeller (third of the five sons of John D. Rockefeller Jr.) and John H. Whitney were rich, prominent prewar venture experimenters; and Georges F. Doriot, a French Harvard Business School professor, was very influential as teacher of a course about entrepreneurship and as president of the American Research & Development Corporation, founded in 1946. In the latter position, he organized capital and support for scientist-entrepreneurs in the Boston area. Government also stepped in by creating the Small Business Investment Company (SBIC) program in 1958, which “created hundreds of venture investors overnight” (Wilson 1985, 13), and later by reshaping the tax system to promote equity investing. One of the most successful pioneers was Frank G. Chambers. Chambers raised $5.5 million in 1959; his Continental Capital Corporation is believed to be the first SBIC in Northern California. Chambers and his brother, Robert, were greatly influenced by Doriot’s teaching at Harvard, and started Magna Power Tools in San Francisco. “Chambers was already part of the informal luncheon-and-investment club that constituted San Francisco’s venture capital community at the time, and he joined a few small investments” (Wilson 1985, 23). Aside from Chambers’s SBIC, the only venture investment group of any magnitude in California was Draper, Gaither & Anderson in Palo Alto. DG&A was formed in 1958 by some of the biggest investors on the West Coast, William H. Draper Jr. (former vice president of Dillon, Read & Company), Rowan Gaither (founder of Rand), and Frederick L. Anderson (a retired Air Force general). DG&A had also raised money from the Rockefeller group.

An important Wall Street investment banker, Arthur Rock, moved himself and his “quiet passion for backing entrepreneurs” (Wilson 1985, 31) to San Francisco in 1961. His name is closely associated with the evolution of Silicon Valley. Rock played a significant role in the creation of Fairchild Semiconductor by the “Traitorous Eight” and accumulated considerable profits from his investments in companies like Scientific Data Systems, Intel, and Apple, among others. Rock’s experiences in California convinced him that there was an important business investment opportunity in the West. In 1961 Rock and Tommy Davis, a lawyer who was president of Kern County Land Company, raised $3.5 million from several of the Fairchild Semiconductor founders,
and opened an office in San Francisco. Davis and Rock and their principle—“back the right people”—became a model for later venture groups. The partnership between Rock and Davis lasted until 1968, when Davis started a partnership with Wally Davis to form the Mayfield Fund.

The “Boys Club” or “the San Francisco Mafia” (Wilson 1985) refers to a 1960s venture capital network that grew up in San Francisco. “One noontime each month they would troop up Nob Hill to the University Club for a meeting of the Western Association of Venture Capitalists, ideas and gossip flowing with the martinis. Deals were put together over lunch at Jack’s or Sam’s, venerable Financial District restaurants where the sole was dependable and the sourdough fresh. ’We’d get together and listen to the entrepreneur’s story,’” recalls Reid Dennis, a charter member of “The Group” (Wilson 1985, 49).

During the 1970s, the Group moved down from the San Francisco Financial District to Sand Hill Road in Menlo Park, just a few miles from Stanford University. It is then that Silicon Valley became the most powerful venture capital enclave in the country. Venture capitalists were sharing the same physical space, now close to the inventors and entrepreneurs and to many of the young technology companies near Stanford.

Simultaneously, the number of venture capital firms increased enormously, as a result of spin-offs and new venture capital firms started by managers and engineers of companies in the computer industry. The evolution of the venture capital industry followed a pattern similar to that of new high-technology companies. Proliferation by spin-offs from preceding generations was prevalent in both industries. Some of the prominent examples of spin-offs in the venture capital industry are documented by Florida and Kenney (1987, 20–21). For example, Reid Dennis and Burton McMurtry founded Institutional Venture Associates (IVA) in early 1974. Out of IVA, two new important venture firms were built in the 3000 Sand Hill Road complex. Dennis’s Institutional Venture Partners raised $22 million and invested successfully in Seagate Technology, a firm making disk drives for personal computers; and David F. Marquardt joined McMurtry and James J. Bochnowski to form Technology Venture Investors (TVI) which raised $24 million. McMurtry later brought in Pete Thomas from Intel, James A. Katzman from Tandem Computers, and Robert C. Kagle from the Boston Consulting Group. TVI had a chance to invest $1 million in Microsoft, which had been founded in 1975 by Harvard sophomore Bill H. Gates and Paul Allen.
Donald Valentine, formerly head of marketing at Fairchild, moved to Sand Hill Road in 1972 and formed Capital Management Services (which later became the important venture capital firm Sequoia Capital). “Everybody in the Valley knew Don Valentine, and if Valentine did not know them, he usually knew somebody who did” (Wilson 1985, 59–60). Valentine’s connection to Fairchild Semiconductor salesmen led him to invest in Atari, entering the home video game industry. In 1976 Atari was bought by Warner Communications, which brought large returns to Sequoia. The founder of Atari, Nolan Bushnell, subsequently referred Steve Jobs, who worked for Atari, to Valentine. Jobs approached Valentine in 1977 in his quest to found Apple Computer; though Valentine passed on this funding opportunity, he did connect Jobs to his ultimate financial supporters.

In 1972, the first venture capital team taking up residence at 3000 Sand Hill Road was Thomas J. Perkins and Eugene Kleiner, predecessor of the now top-ranked firm Kleiner Perkins Caufield & Byers. Sandy Robertson, founder of an investment banking firm on San Francisco’s Montgomery Street, was the matchmaker for this successful venture fund. Perkins was an engineer from MIT, had been a Harvard Business School MBA student who took classes with Georges Doriot and had worked for David Packard. Kleiner, one of the “Traitorous Eight,” was a mechanical engineer from Brooklyn Polytechnic Institute who moved to California to work at Shockley Semiconductor Laboratory. Kleiner and Perkins decided to go into venture capital and to take an active role in designing and building the companies they backed. But they went a step further, encouraging their associates and partners to start companies of their own, such as Tandem Computers, Genentech, and Hybritech. This made Kleiner and Perkins not only a venture capital firm, but also a group of entrepreneurs able themselves to start and run their own companies.

**Social network analysis of West Coast venture capital firms.** Ultimately we aim not only to describe the historical development of the networks, but also to show how the particular structure of social networks in Silicon Valley stimulated higher growth and development compared to other regions. But the historical evolution of venture capital networks during the key period from 1958 to 1983, if narrated in full detail, would be too confusing and complex for our more modest purpose here. Our first goal has been to identify all early venture capital firms that contributed to the development of the West’s
venture capitalism. We compiled our data from the second well-known Silicon Valley firm “genealogy chart”: “West Coast Venture Capital—25 years,” created by the Asset Management Company (AMC) in 1984. This chart indicates that more than three hundred people in more than a hundred companies built West Coast venture capital in the 25 years between 1958 and 1983.11

We have identified 129 venture capital organizations (including spin-offs) in the Western region between 1958 and 1983. In Figure 11.3 we plot the cumulative number of such firms by year. The rate of founding remained relatively stable until 1967–68, after which it grew rapidly. An explanation for this trend is that during the late 1960s, the limited partnership became a common form of organization, and even large financial institutions became willing to invest as limited partners. After 1983 (not displayed), the number of venture capital firms in the Western region of the United States continued to grow, mainly as a result of spin-offs from existing venture capital firms.

Next we provide a preliminary glimpse into the network of venture capital firms.12 As with the semiconductor industry, we use the computer program MAGE to illustrate the connections. In the semiconductor genealogy graph of Figure 11.2, each point (or “node”) represented a person; here, each point represents a firm, and the lines connecting the points represent the ties between these organizations. In this case, the presence of a tie between two firms indicates that they share at least one founder.

There are 129 firms (or nodes), and 232 lines.13 Unlike Figure 11.2, in which the nodes are more or less uniformly connected, Figure 11.4 shows two clear-cut clusters of venture capital firms.14 One, on the upper right, is composed of 57 firms that are highly interconnected with each other. In this cluster, we find some of the oldest and still the most central and influential VC firms in Silicon Valley today, such as Kleiner Perkins, Crosspoint Venture Partners, Hambrecht & Quist Venture Capital, Institutional Venture Partners, and Mayfield Fund. It is remarkable how many of these firms have common founders, which indicates how close-knit this collection of firms was. We expect that the enormous influence of these firms derives not only from their early position of dominance, but also from the dense network of contacts they maintained among themselves. This network would have provided important conduits of information and flows of resources including advice, gossip, and referrals of opportunities that a given firm could not take advantage of at a
given moment. In this clique, however, are also firms of more recent (1980s) origin, such as Melchor Venture Management and Lamoreaux & Associates. These newer firms appear to have gained their influence as spin-offs of the older and more influential ones.

The second cluster is a group of individual firms with very few or even no co-founder links among themselves. They are more or less randomly connected when connected at all, and include many “isolates”—which in this context means firms whose founders neither came from other VC firms nor started any new ones. Some of the firms in this incoherent cluster are nevertheless influential, such as Davis and Rock, and Sierra Capital.

This picture belies the idea that connections in Silicon Valley are dense everywhere and that everyone is connected to everyone else. The very different structure of these two distinct and completely disconnected groups of firms also suggests that there are at least two different strategies by which venture capital firms exercise their influence. Moreover, at least for venture capital, firms that are not involved in spin-offs or in dense networks of other such firms may find other ways to make their mark. Further research will be required to suggest what these ways are, but one possibility is that firms in the second cluster, appearing isolated in their absence of co-founder relations to other firms, may have other kinds of personal relations to fellow venture capital firms, and
be more tightly integrated than the first cluster with firms outside the venture capital sector, such as law and accounting firms, educational institutions, and the technical sector itself.

Finally, although we do not show the figure here, we have also examined the social network of venture capitalists who started and built the venture capital industry in the Western region. There are 348 people involved in the construction of venture investing, according to the AMC’s genealogy chart, and over 2,200 ties. The average number of ties per person is 6.41, which means that each person in the network is connected as a co-founder of a venture capital firm to 6 other people in the network on average. This corroborates, once again, the importance of networks of human relations for Silicon Valley venture capital.

One of the interesting findings in the network analysis of individuals is that actors such as Arthur Rock, Tommy Davis, Eugene Kleiner, and Frank Cham-
bers, who historically had important roles in the institutionalization of venture investing in Silicon Valley, are not necessarily as central as one would have expected. The most central actors in the co-founder network of venture capitalists all appear to have worked in the 1970s and early 1980s for venture capital funds started by important U.S. and regional banks (such as Citicorp Venture Capital Ltd., Bank of America Capital Corporation, Wells Fargo Investment Company, and Western Bancorp Venture Capital Company). These “venture capital” banks are not only “training grounds for inexperienced venture capitalists” (Kenney and Florida 2000), but also excellent places for them to expand their personal networks. Most of these venture capitalists, after learning about venture financing by working for a bank, left and started their own limited partnership or joined a more prestigious existing venture capital fund.16

An analysis of the network of companies confirms that employees of venture banks such as Bank of America Capital Corporation and Citicorp Venture Capital Ltd. founded a large number of new firms. Likewise venture capital firms such as Small Business Enterprises, Westven Management Company, and Fireman’s Fund were also quite central to the development of the industry. The venture capital funds such as Hambrecht & Quist, Institutional Venture Partners, Interwest Partners, and Kleiner Perkins and their current venture fund descendants are among the firms that were and still are the most central and influential VC firms in the financing of companies, not only in Silicon Valley, but also elsewhere in the United States, where new investment opportunities are emerging. There are also venture partnerships that were started during the mid- to late 1980s (e.g., Menlo Ventures, and Burr, Egan, Deleage & Company, among many) or even earlier (Sierra Capital) that have become central in the current structure of venture capital.

**Institutional Infrastructure:**

**An Analysis of the Silicon Valley Regional Economy**

Dense networks not only within but between sectors of engineers, educators, venture capitalists, lawyers, and accountants are important channels for the diffusion of technical and market information. Although we have frequently mentioned the importance of such cross-institutional ties, and have
given important qualitative examples, we have not yet attempted systematic analysis of this phenomenon.

Mapping the relationships among different institutional sectors in the Valley is a must for a systematic understanding of the regional economic system, but it presents daunting challenges. Many domestic as well as foreign attempts to imitate the success of Silicon Valley have failed because the Valley’s results depend on its particular institutional configuration rather than on the features of particular firms. But it is not obvious how to explore systematically the way different institutional sectors articulate with one another.

As a first step in developing such exploration by network analysis, we chose to study the case of IPOs. IPO deals allow us to observe the infrastructure of the economy at work, since at least five firms from four different institutional sectors take part: the new industrial firm itself (the “issuer”), a lead underwriting investment bank (usually as part of a syndicate), the issuer-side law firm, the underwriter’s law firm, and an auditing accounting firm.

To illustrate the kind of analysis we believe will be fruitful, we take a small special case: the data on California firms involved in 1999 IPOs in a single four-digit SIC code, SIC 7375—“information retrieval services”—which includes such familiar firms as Ask Jeeves, Inc., Broadband Sports, Inc., and McAfee.com Corporation. In SIC 7375, the total number of issuer firms that filed for IPO in the United States in 1999 was 148, of which 19 came from California. In these 19 IPOs, 14 different law firms, 9 lead investment banks, and 6 accounting firms participated. The difference between the number of law firms and the number of accounting firms reflects the difference in industry concentrations. The audit industry is highly concentrated, and the Big Six (Arthur Andersen, Ernst & Young, Bailey, Mark & Co., KPMG, Lumer, Marc & Company, and Price-waterhouseCoopers) take up a disproportionate share of the audit market.17

We define two firms as having a network tie when both are involved in the same IPO. The structure of connections among the different companies involved in the filing of IPOs is presented in Figure 11.5, computed with the MAGE program previously described. The issuer firms themselves do not appear in the picture, only the infrastructural firms that supported the IPOs. Law firms, investment banks, and accounting firms are each represented. Firms are connected by lines if they participated together in at least one of the nineteen IPOs, and the length of the line is inversely proportional to the number of co-
participations; we may think of this as a measure of the “strength” of the tie—the longer the tie, the weaker the relationship. 18

Although the network as a whole is densely connected, one can single out a group of eight firms (with the highest score in all centrality measures such as nodal degree, closeness, and betweenness) that are relatively more densely connected to one another: three law firms (Wilson Sonsini Goodrich & Rosati, Brobeck Phleger & Harrison, and Cooley Godward), three investment banks (Goldman, Sachs & Co., Morgan Stanley Dean Witter, and CS First Boston), and two accounting firms (PricewaterhouseCoopers and Ernst & Young). 19

We note some interesting findings in the graph. First, there is a status dimension to this collection of firms. All eight firms are leading firms in their

**Figure 11.5.** Network of IPO deals in the information retrieval services industry in California.

*Source: 1999 IPO deals from www.ipodata.com*
own industries (see Podolny 1993 for the status hierarchy of the investment banking industry and Han 1994 for the audit market). Both the investment banks and the accounting firms are well-recognized firms. While legal practice is more localized by state-level licensing, the three law firms are all big, corporate law firms. Wilson Sonsini has long been an institution in its own right in the Valley. Both Brobeck Phleger & Harrison and Cooley Godward are San Francisco–based law firms with branches around the country, employing hundreds of lawyers.

Second, although the profile of investment banks and accounting firms suggests the national scope of the markets for financial services and audit services, the market for legal services appears to be distinctively local. Although legal practice is circumscribed by state-level licensing, the emergence of national law firms (with branches in multiple states) and international law firms means that the market does not necessarily need to be as localized as it appears in this analysis. And the high concentration of legal services in our data departs from the more general national pattern. For example, the law firm of Wilson Sonsini Goodrich & Rosati participated in nine of our nineteen IPOs, either from the underwriter’s or from the issuer’s side.

Given that there are fourteen law firms in the data, this is a remarkable figure, equaled only by the accounting firm PricewaterhouseCoopers. But there are only six accounting firms in the data, reflecting the domination of the audit market by a small number of national firms. By contrast, concentration in law, compared to other service industries, is normally quite low. We do not have good recent data, but Galanter and Palay (1991) show that in 1982, percentages of total receipts were .9 percent and 3.6 percent for the four and twenty largest law firms, respectively, compared to 16.9 percent and 34 percent for the largest accounting firms. We do not have reason to think that these national patterns have changed dramatically. Yet in our data, the three most central law firms appeared twenty times in the nineteen deals. This is out of a possible 38 showings (since there are two law firms for each deal, one for the issuer and one for the underwriter), and thus these three occupied more than 50 percent of the slots in these deals—an extraordinarily concentrated market, far different from the national pattern for legal services.

From our preliminary study of IPO deals within a single SIC code, we begin to see the contours of the institutional articulation of the economy and can
point to the local aspect of this configuration. It is this background of financial, commercial, and legal institutions linked to each other that characterizes Silicon Valley. Results for a single SIC code in a single year can only be illustrative. Differences in outcomes between years and industrial sectors would help us see why different sectors evolve in different ways. We would like to know, for example, whether the high concentration of legal services is a regional effect, an industry effect in this particular SIC code, or a temporary blip in a less concentrated pattern over time. We plan to explore many different permutations of this type of analysis in our effort to understand how Silicon Valley industrial and nonindustrial infrastructure has interacted and fitted together.

The development of Silicon Valley was highly dependent on this particular institutional context, which cannot easily be replicated in other regions. Our analysis also suggests that attempts to merely copy the structure and features of firms, as though they were independent actors, cannot be fruitful. Understanding how the networks of Silicon Valley have been built and are interrelated is essential for understanding regional differences in development.

**CONCLUSION**

This chapter has had two aims. First, we tried to describe and explain the crucial importance of social networks for the functioning of the Silicon Valley regional economy. Our emphasis has been not only on the important networks within institutional sectors, but also on the flow of people, resources, and information among sectors. It is our view that these intersectoral flows are what make Silicon Valley unique, and that in the history of the world’s economy, the ability to leverage value by shifting resources among previously separated sectors has always provided a vital edge for regions able to do so.

Because of the enormous attention paid to this highly successful region, the general idea that networks are important has attained widespread currency, and so our emphasis will not surprise even casual observers. But we have also tried to connect this theme to the large and growing academic literature on the sociology of the economy, which indicates that Silicon Valley is not unique in having its outcomes derive from social networks. Instead, these networks un-
derlie the economic structure of many regions, including some that are far less successful and have drawn much less attention. This means that the interesting problem is not whether networks are important in a region, but what kinds of networks are associated with what kinds of outcomes.

The literature on industrial organization has begun to consider this question. Saxenian (1994) presented a systematic argument that network structure in Silicon Valley was quite different from that in the Route 128 corridor of the Boston metropolitan area, for a variety of historical, economic, and cultural reasons, and that this difference translated into what she called, in her book’s title, a distinct “regional advantage” for the Valley. Increasingly, when analysts question network interpretations of economic outcomes, they turn not to non-network stories, but to different and more refined network accounts. Thus, several recent studies challenge the idea that the “Third Italy” produces uniformly successful outcomes in its textile industry through elaborate networks of ties among small firms, outcompeting previously dominant but now ponderous and slow-moving large firms. Locke (1995) proposes that such outcomes are in fact quite variable, because only some regions have the institutional infrastructure to support such elaborate networks; and Lazerson and Lorenzoni (1999) point to situations where what really matters is what kind of ties connect networks of small firms to larger firms that can in turn connect them to global partners and suppliers. In such a scenario, the analytic problem shifts from whether large or small firms will triumph, to how the regional economy links firms of various sizes and competencies together, and with what results.

Such an emphasis should be important in Silicon Valley as well, because although most attention has gone to the network of small firms and connections among them, it is amply clear that the Valley’s success also depends crucially on the Hewlett-Packards, the Intels, and the Cisco Systems. These firms do not compete to the death with small firms, but instead have an elaborate and complex relation to them that has been a source of vitality not yet adequately charted.

The second goal of this chapter, and of the project from which it reports, is to develop systematic methods to analyze the networks of Silicon Valley, and to enable us to make the distinctions between network structures that lead to stronger or weaker outcomes. The important work in industrial organization
that has pointed to the centrality of networks cannot progress further without an adequate toolkit of methods for clear and detailed analysis of the complex data presented by the actual networks in particular regions and industries. We present here exploratory analyses from the beginnings of a long-term project.

As in most fields, methods lag behind theory, and at present, our technology and computer programs are a patchwork of materials borrowed from other settings, which need to be further developed and integrated. We believe that the network studies reported here show the promise of such further development, without establishing the definitive results that systematic analysis aspires to. But we also believe that such analysis is an indispensable step in developing a more sophisticated understanding of this and other industrial economies. In studying Silicon Valley’s networks, we are probing its deepest and most enduring source of vitality, which will determine whether its world-dominating position can survive very far into the twenty-first century.
CHAPTER 11, CASTILLA ET AL.

1. For a detailed historical account, as well as a comprehensive inventory of current knowledge, see Wasserman and Faust 1994.

2. MAGE was developed as a device to be used in molecular modeling. It produces three-dimensional illustrations that are presented as interactive computer displays. Transformations of these displays are immediate. Images can be rotated in real time, parts of displays can be turned on or off, points or nodes can be identified by picking them, and changes between different arrangements of objects can be animated. For more information on MAGE, see Freeman, Webster, and Kirke 1998, or visit http://www.faseb.org/protein/kinemages/kinpage.html to learn about and download the MAGE program. One of the difficulties of presenting network diagrams in printed form is that the dynamic capabilities of the program generating the pictures cannot be displayed; only static cross-sections can be presented.

3. For their indispensable help in developing methods and compiling data to construct this visualization, we are grateful to Dimitris Assimakopoulos (Hull University Business School, United Kingdom) and Sean Everton (Stanford University).

4. There are 372 people (or nodes) and more than 1,500 lines, out of a possible 69,006 ([n × (n-1)]/2). Each person in the network is connected to four others, on average.

5. Centrality can be measured in several ways, each of which is associated with a different substantive interpretation. A person’s “degree centrality” is simply the number of other people to whom the given person is tied. Degree is typically used as a measure of an actor’s involvement in a network (Freeman 1979). In this sense, a person tied to two other people is said to be twice as involved as a person with only one link. In contrast, “betweenness centrality” is usually interpreted as a measure of an actor’s power. A person gains power over any two other actors when she lies on the shortest path between the two in a given network of relations. In a network of N actors, an actor obtains the highest possible “betweenness” score when all N –1 other actors are tied only to that person. In this case the focal person would lie on all the shortest paths in the network and would be called a “star.” The relative betweenness of a point is a ratio that measures the extent to which a point in a network approaches the betweenness score of a star (Freeman 1979). A person’s relative betweenness can vary from a minimum of 0, when it lies on no shortest paths, to a maximum of 1, when the person is in fact a star. We calculated the degree and the relative betweenness of each person on the semiconductor industry genealogy chart.

6. A separate analysis with the companies as nodes, connected if they shared a founder, indicates that Fairchild Semiconductor and Amelco (founded in 1961 by Hoerni, Kleiner, Last, and Roberts) were the most central companies in the semiconductor network. Full results of the network analysis using the program UCINET 5 are available upon request.

7. At the present time, the Honors Cooperative Program has been integrated into the regular engineering curriculum.

8. Faculty interview.

9. Personal interview.
10. See Paul Hirsch’s 1972 discussion of the importance of “boundary spanning units” or “contact men” in locating talents and marketing new products for organizations in cultural industries. We argue here that members of research centers and programs who have worked both in industry and at universities broker and facilitate the interaction between the university and industry to the benefit of both.

11. There are some omissions, such as Tom Flowers, Bud Moose, and Ray Lyon, who started early SBICs and were leaders of the old Western Association of Small Business Investment Companies (WASBIC). These people were not included since they primarily did real estate deals. WASBIC was the predecessor of today’s Western Association of Venture Capital (WAVC). The information is current from 1958 up to December 1983, to the best of Asset Management Company’s knowledge. West Coast offices of venture firms based elsewhere are not included as West Coast firms unless they joined the Western Association of Venture Capital (WAVC). Only those individuals whose principal occupation has been venture capital are coded in the genealogy chart, together with some investment bankers who were included when direct venture capital investment was a significant part of their business. We have done additional research to verify and complete some of the information contained in the chart whenever possible. In addition, we have sought to identify other firms and connections.

12. Our findings are tentative; data collection and analysis are still in progress.

13. This is out of the possible 8,256 lines ($n \times (n-1)/2$).

14. Figure 11.2 represents people rather than firms. But the comparable network graph for semiconductor firms, although not as densely connected as that for people, is quite different from Figure 11.4, and does not break down into clear components.

15. This is out of the possible 60,378 ties ($[n \times (n-1)]/2$).

16. Among the central actors who followed this pattern are David G. Arscott, who started Arscott, Norton & Associates in 1978 and worked for the previous ten years in Citicorp Venture Capital Ltd.; Dean C. Campbell, who also worked for Citicorp Venture for a year early in the 1980s and then for Institutional Venture Partners; Walter Baumgartner, who worked for Bank of America Capital Corporation from 1975 to 1979, and in 1979 moved to Capital Management Services, Inc; and Lawrence G. Mohn Jr., who worked for Bank of America Capital Corporation from 1975 to 1980 and left to work for Hambrecht & Quist. Kirkwood Bowman, the venture capitalist with the highest degree centrality in the whole network (connected to 32 people in the industry—five times the average nodal degree) also worked for Bank of America Capital Corporation from 1975 to 1979, then worked for WestVen until 1981, when he started working for Hambrecht & Quist.

Fuller results of the network analysis are available upon request. Our cautionary note in the section above on the semiconductor industry genealogy analysis, on the different meanings of centrality in networks with differently defined ties, also applies here.

17. Because this study is only illustrative, we have left in the data for California firms not located in Silicon Valley. Our preliminary analysis suggests that confining ourselves to Silicon Valley firms would not significantly change the results.

18. An interesting complementary analysis would be to study the network of industrial firms that are related by virtue of having had the same law firms, accounting firms, and investment underwriters on their IPOs. Such firms are tied to one another in the sense that they talk to the same partners in other institutional sectors, and thus might be expected to receive simi-
lar or related advice, information, and perhaps personnel flow into the firms or their boards of directors. One interesting issue would be to see whether such linked firms were more likely to pursue similar strategies than pairs of firms not linked. For a related argument, that board overlaps lead to similar anti-takeover strategies, see Davis 1991.

19. Full results of the network analysis are available upon request.

CHAPTER 12, SAXENIAN

1. For an account of the postwar growth of the Silicon Valley economy, see Saxenian 1994. For more data on immigrants in Silicon Valley, see Saxenian 1999.

2. Interview, Lester Lee, July 1, 1997.

3. Ironically, many distinctive features of the Silicon Valley business model were created during the 1960s and 1970s by engineers who saw themselves as outsiders to the mainstream business establishment centered on the East Coast. The origins of the region’s original industry associations like the American Electronics Association were an attempt to create a presence in a corporate world that Silicon Valley’s emerging producers felt excluded from. In the early days, these organizations provided role models and support for entrepreneurship similar to those now being provided within immigrant communities. See Saxenian 1994.

4. This list includes only professional associations whose focus is technology industry. It does not include the numerous Chinese and Indian political, social, and cultural organizations in the region; nor does it include ethnic business or trade associations for nontechnology industries.

5. This parallels Granovetter’s (1995b) notion of balancing coupling and decoupling in the case of overseas Chinese entrepreneurs.

6. The following discussion is based on interviews with K. Y. Han and Jimmy Lee.

7. In 1996, 82 companies in the Hsinchu Science Park (or 40 percent of the total) were started by returnees from the United States, primarily from Silicon Valley, and there were some 2,563 returnees working in the park alone. Many other returnees work in PC businesses located closer to Taipei.


12. Similarly, when Texas Instruments set up the first earth station in Bangalore, it entailed a long-winded process that included breaking or removing 25 government regulations.

PART III, INTRODUCTION


2. The geographic scope of the region shown here includes all of Santa Clara County and extends into adjacent zip codes in Alameda, San Mateo, and Santa Cruz counties. This is consistent with Joint Venture: Silicon Valley’s 2000 Index (see Joint Venture: Silicon Valley 2000,
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REFERENCES / 403


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REFERENCES


REFERENCES


REFERENCES


INDEX

Accel Partners (venture capital firm), 297
Accountants, 13, 275, 355–69; areas of expertise of, 357–60; expertise on SEC rules provided by, 358, 359, 362, 364–65; geographic concentration of, 272, 273; and Internet start-ups, 368–69; involved in IPOs, 242, 243; traditional rules for, and Silicon Valley environment, 365–66; as valuable to start-up entrepreneurs, 356–57, 361–64, 366–67
Acquisitions: accounting related to, 360; by Cisco Systems, 33, 78, 107–8, 114–16, 307, 385n3; companies designed for, 146–47, 381; entrepreneurial style based on, 114–16; IPOs vs., in venture capital industry, 288–89, 306, 307; Symantec strategy of, 396n12, 397n13
Adecco (placement firm), 353
Adobe, 204, 206, 283
Advanced Micro Devices (AMD), 1, 47, 63, 228, 296
Advanced Research Project Agency (ARPA), 51, 192, 198
Advanced Technology Ventures (venture capital firm), 336
Agriculture, in Santa Clara Valley, 153, 200
Air Force: and digitization of avionics, 167–68; Minuteman Missile program of, 172–73, 179, 180
Alexander, Lamar, 75
AllAdvantage, 142
Allen, Paul, 204, 236
Alliance of Angels, 309
Alpha Partners (venture capital firm), 305
Altera, 83
Amazon.com, 77, 78, 79, 125, 138
Amdahl, 66, 68, 70
Amelco, 182
American Electronics Association, 67, 255, 394n3
American Management Systems, 194
American Research and Development Corporation (venture capital firm), 164, 235, 296
American system, as conducive to innovation, 7, 185–88
America Online, 74, 125, 142
Anderson, Frederick L., 235
Andreesen, Marc, 7, 102, 198, 310
Angel investors, 294, 346; as capital source for start-ups, 207–8, 309–10, 346, 391n5, 395n2; increase in financing by, 43, 305; and venture capital industry, 65, 291–92, 309–11. See also Garage.com
Angel Investors (angel investing firm), 310
The Angel Network, 309
The Angels’ Forum, 294, 309
Apollo Computer, 73, 74
Apple Computer, 1, 3, 73, 216; and graphical user interface, 27, 29; growth of, 68, 74; and Homebrew Computer Club, 6, 47, 65; John Sculley at, 348, 349; success with nontechnical public, 70–71; suppliers to, 35–36, 71–72; technology basis of, 70, 206; and venture capitalists, 235, 237; venture funding by, 283–84
Application service providers, 132
Applied Materials, 373
Ariba, 84, 86, 307
ARPANET, 51, 192, 198
Arscott, David G., 393n16
Ascend Communications, 76
Asia: immigration from, 248–50; manufacturing in, 5, 373; slowdown in exports to, 52, 53 (fig.); as source of venture capital, 262–63;
Asia (continued)
venture capital invested in, 277–78. See also
Chinese immigrants; Indian immigrants; Japan
Asian American Manufacturers Association (AAMA), 255, 256 (table), 258
Asset Management Company (AMC), 238, 393n11
Atari, 237, 348
@Home, 281, 308
Atwell, James, 363
Audible, 308
Autonetics, 172–73, 175, 177–79
Avionics: digitization of, 167–68; as driving
development of planar process, 171–72, 175;
as forcing manufacturing reliability, 177–79
Baldwin, Edward, 167, 228
Band of Angels, 6, 294
Bank of America Corp., venture lending by,
241, 296
Banks: commercial, 274, 317; investment, 163,
242, 243, 284, 291, 296; venture capital
funds owned by, 284, 296. See also Silicon
Valley Bank
Barksdale, Jim, 76, 77, 280, 349
Barrett, Craig, 9
Baskett, Forest, 192
Basu, Radha, 263–64
Baumgartner, Walter, 393n16
Bay, Thomas, 158, 167, 180
Bay Networks, 264
Becholsheim, Andreas, 192
Beckman, Arnold, 162
Beirne, David, 346
Bell, Alexander Graham, 25
Bell-Mason Diagnostic, 367
Bell Telephone Laboratories, 158, 178; Shockley
at, 60, 160; solid state diffusion developed at,
159, 161; transistor research at, 25, 27, 60,
162, 168, 173, 174
Belluzzo, Rick, 349
Benchmark Capital (venture capital firm), 287,
297, 307, 346
Benchmarking, 21–22, 386n2
Bennett, Bill, 75
Berners-Lee, Tim, 25, 198
Beyond News, 127
Bezos, Jeff, 76, 77, 79, 295
Bioinformatics, 58
Biotechnology, 385n4; as area of venture capital
investment, 66, 277; employment in, 52
(table), 54 (fig.), 58; Silicon Valley as center
of, 58, 385n1; value added per employee in,
49 (fig.)
Blank, Julius, 160, 161 (fig.), 225, 227
Boards of directors, as social networks, 221–22
Bochnowski, James J., 236
Boston area, 246; computer firms in, 194, 197;
early venture capital firm in, 296; semiconductor
firms in, 61–62; venture capital
invested in, 277
Bowman, Kirkwood, 393n16
“Boys Club,” 236
Brentwood Associates (venture capital firm), 307
Bresnahan, Timothy, 184, 390n1
British Telecom, 349
BroadVision, 303
Brobeck, Phleger & Harrison (law firm), 72,
243, 244
Brodia, 133, 134
The BUNCH, 70
Burr, Egan, Deleage & Company (venture capi-
tal firm), 241
Burroughs, 70, 196, 349
Bush, Vannevar, 343–44
Bushnell, Nolan, 237
Business, see Corporations; Firms
Business culture, Silicon Valley, 96; democratic,
9, 225, 372, 373–74; openness of, 6, 10; self-
reliant, 371–75
Business infrastructure, 12–13, 17; creative
services offered by, 107; entrepreneurship
encouraged by, 95–96, 316; geographic loca-
tion of firms constituting, 72, 271–73, 372,
394n2; as requirement for start-ups, 210–13
Business models, 81–93; accountants’ expertise
on hybrid, 361–64; and capital availability,
87–89; e-commerce, shift from vertical to
horizontal integration in, 133–38; embracing
standards, 86–87; future, 91–93; Keiretsu,
92; new, prompted by Internet, 129–33; “no
bricks and mortar manufacturing,” 83–84;
offering exponential returns to scale, 84–86;
in other countries, 382–83; reverse markets,
84; Silicon Valley, characteristics of, 81–82;
talent scarcity affecting, 89–90; to gain mind
share, 90–91
Business-to-business (B2B) e-commerce, 129–32
BuyBooks.com, 134

CAE Systems, 303
Cailliau, Robert, 198
Calico Technologies, 283
California: exports from, and immigrants, 259; laws facilitating labor mobility in, 385n5; venture capital invested in, 277
Cambridge University, 188
Campbell, Dean C., 393n16
Capital: angel investors as source of, 207–8, 309–10, 346, 391n5, 395n2; availability of, 87–89; sources of, for start-ups, 207–10, 262–63, 309–10, 395n2; Taiwan as source of, for immigrant entrepreneurs, 262–63. See also Venture capital
Capital Management Services (venture capital firm), 237
Cardoza, John, 356
Career Builder, 353
Career Mosaic, 353
Carey, John, 63
Carnegie-Mellon University, 2, 191, 192
Carstation.com, 338
Castells, Manuel, 18
Catalina, 134
CDC, 70
Centex Telemanagement, 280, 282
Centillium Communications, 303
Centrality, 392n5; in semiconductor industry social networks, 227–29; in venture capital industry social networks, 240–41, 393n16
CEOs, 90, 91; executive searches for, 348, 349–51; start-up, as reaching limit of effectiveness, 121, 207, 282, 397n13. See also Management teams
Cerent, 78, 115, 116, 326
Challenge 2000, 57
Chambers, Frank G., 235, 240–41
Chambers, John, 107–8, 114–16
Chambers, Robert, 235
Chemdex, 326
Chinese immigrants, 249, 250, 267; from Taiwan, 249, 250; and “glass ceiling,” 250–52; and links between Hsinchu (Taiwan) and Silicon Valley, 259–63, 394n7; professional organizations of, 254–58, 256–57 (table), 394n4; start-ups by, 251–52, 252–53, 253 (table), 261. See also Immigrant entrepreneurs Christensen, Clayton, 223
Christian & Timbers (executive search firm), 350
Cirrus Logic, 303
Cisco Systems, 1, 48, 76, 110, 204, 276; acquisitions by, 33, 78, 107–8, 114–16, 307, 385n3; contract manufacturing by, 83–84, 89; growth rate of, 87; and Stanford University, 201, 206; and venture capitalists, 91, 222
Citicorp Venture Capital Ltd. (venture bank), 241
Clark, Jim, 34, 76, 97, 119, 120–21
Clinton, Bill, 75
Clusters, see Industry clusters
CMGI (venture capital firm), 92, 311
Colella, Sam, 379
Collaborations: behind innovation by individuals, 24; between government and industry, 56–57; between industry and educational institutions, 10–11, 56, 57, 186–87, 343–44; Silicon Valley pioneers championing, 343–44. See also Partnering
Commercial banks, 274, 317. See also Silicon Valley Bank
Communication: and localization, 17–18, 35, 37; as purpose of computer use, 130–32
Communities of practice, 24–26, 29–30, 30 (fig.), 31, 31 (fig.), 32
Compaq, 72, 74, 128, 311
Compensation: high wages as, 48, 49 (fig.), 55; as recruitment issue, 351; stock / stock options as, 60, 63, 91–92, 373–74; for venture capitalists, 279, 286, 395n6–7
Competition: advantages in, offered by Silicon Valley, 13–15; encouraged by social climate, 211–12; from foreign computer companies, 187, 300; from Japanese semiconductor industry, 67–69, 390n3; open standards as changing, 196–97; start-up advantage in, 127–29
Computer industry: foreign competition in, 187, 300; geographic shift in location of, 197; government help for, 188–93, 390n3; increase in start-ups in, 204, 391n1; manufacturing in, in foreign countries, 5, 373; transformed from vertical to horizontal industry, 193–97, 195 (fig.). See also Hardware industry; Personal computers; Software industry
Consultants, 13, 275, 370–79; aversion to, 370–71, 377; change in need for, 375–76; and culture of self-reliance, 371–75; geographic concentration of, 271, 273; Internet as affecting, 376–77; as part of Silicon Valley service infrastructure, 377–79

Consumers: e-commerce targeting, 135–38; as involuntary salespersons with viral marketing, 140, 145–46; semiconductor companies marketing products to, 64–65, 66

Continental Capital Corporation (SBIC), 235

Contingency search firms, 352–53

Contingent workforce, 92

Contract manufacturing, 83–84, 89

Control Data Corporation, 192

Conway, Ron, 310

Cooley Godward (law firm), 243, 244

Corporate culture, see Business culture

Corporations: collaborations between educational institutions and, 10–11, 56, 57, 186–87, 343–44; venture capital funding by, 209–10, 283–84, 294, 308–9. See also Firms

Costs: of finding employees, 342; interaction, 82–83; of starting company in U.S. vs. Europe, 185

Coyle, Alfred, 164

Cravath Swaine & Moore (law firm), 334

Cray Inc., 192

Creative abrasion, 34, 386n6

Creative destruction, 34, 46, 386n6

Creativity, of entrepreneurs, 106–7

Critical Path, 311

Crosspoint Venture Partners (venture capital firm), 238, 305

CS First Boston (investment bank), 243

C2B Technologies, 127

Customers, relationships of entrepreneurs with, 109–10

Dalal, Yogen, 286, 303

Data General, 61

Dataproducts, 296

Davidow, Bill, 379

Davis, Thomas, 182, 235–36, 240, 296, 297, 298

Davis, Wally, 236, 297, 305

Davis and Rock (venture capital firm), 182, 235–36, 239, 297

De Anza College, 385n6

DeBower, Larry, 358–59

Defense, 158–59; Advanced Research Project Agency (ARPA), 51, 192, 198; and Fairchild Semiconductor, 166, 172, 180, 190, 388n33; Minuteman missile program, 172–73, 179, 180; Silicon Valley employment related to, 50–51, 52 (table), 54 (fig.), 191; as technology shaping Silicon Valley economy, 47, 47 (fig.); value added per employee in, 49 (fig.)

deForest, Lee, 153

Dell, 87, 125, 128, 196

Dennis, Reid, 26, 236, 297, 308

Department of Defense (DoD): Advanced Research Project Agency (ARPA), 51, 192, 198; and Fairchild Semiconductor, 159, 166, 172, 180, 190, 388n33; and silicon technology, 158–59

Devine, Rick, 346

Dhen, Pehong, 303

Diamond Multimedia, 363–64

“Digital divide,” 55, 381

Digital Equipment, 187

Digital Impact, 137

DigitalWork, 132

The Dinner Club, 309

Doerr, John, 68, 76, 91, 221, 280, 304, 379

Dole, Bob, 75

Doriot, Georges F., 235, 237

Draper, Tim, 140

Draper, William H., Jr., 235

Draper, William H., III, 296

Draper Fisher Jurvetson (venture capital firm), 124, 125, 129, 132, 139–40

Draper, Gaihler & Anderson (SBIC), 234, 235

Drazen, Jeffrey, 280

Drugstore.com, 78

EASDAQ, 396n11

Eastman Kodak, 169

eBay, 1, 125, 307

E-commerce, 57; B2B, 129–32; consumer, 133–38; empowerment of consumers by, 135–38; shift from vertical to horizontal integration in, 133–35; venture capital industry’s interest in, 76–77; viral marketing in, 143

eCompanies (venture capital firm), 309

Ecosystem, Silicon Valley as, 37–38, 314–16, 385n2

Edison, Thomas, 25

EDS, 194
Educational institutions: collaborations between industry and, 10–11, 56, 57, 186–87, 343–44; government funding for, 186, 187, 191–92, 289, 390n2; and immigrant students, 250; reciprocity between firms and, 35; Silicon Valley, 212–13, 385n6. See also individual universities by name

Edwards, Bill, 391

eHatchery (venture capital firm), 309

Eilers, Dan, 283

Elahian, Kamran, 303

Electric dynamo, 196, 390n5

Electroglas, 183

Ellison, Larry, 91, 326

Employee Retirement Income Security Act (ERISA), revised interpretation of, 289, 299

Employees, 2, 71; of entrepreneurs, 99 (table), 105–6; entry-level professional, 201–2, 214; growth in number of, 44, 51–52, 52 (fig.), 53 (fig.), 54, 54 (fig.); productivity of, 48, 49 (fig.); retention of, with acquisitions, 115–16; search for, 342, 352–53; sectors employing, 50 (table), 51 (fig.); stock /hr>stock options for, 60, 63, 91–92, 351, 373–74; temporary, 90, 352; value added by, 2, 48, 49 (fig.), 81; wages for, 48, 49 (fig.), 55. See also Management teams; Workforce

Engelbart, Douglas, 3

Entrepreneurial styles, 111–21; acquisition, 114–16; serial, 119–21; transformational, 116–19; visioneer, 112–14

Entrepreneurs: celebration of, 295; and community life, 122–23; lawyers as, 338; passion of, 95, 361; risk taking by, 103–4; Silicon Valley, and small business owners and traditional entrepreneurs, 96–111, 98–101 (table); social networks of, 5–6, 94–96, 100 (table), 108; value of accountants to, 356–57, 361–64, 366–67; and venture capital firms, 280–81, 302–3, 305, 397n16. See also Immigrant entrepreneurs

Entrepreneurship, 381; business infrastructure supporting, 95–96, 316; defined, 94; global spread of, 382–83; government rules favorable to, 189–90; importance of local heroes for, 125–26; and Internet, 124, 126, 128; negative side of, 121–22; Silicon Valley habitat's encouragement of, 5, 106–7, 211–12, 344–45

Entrepreneurs in residence (EIR) programs, 305, 397n16
ePace, 310

Equity, see Stock / stock options

Ernst & Young (accounting firm), 242, 243

Ethernet, 216, 299–300

eToys, 326

E*Trade, 86–87

Europe, 87; American system of innovation compared to, 185, 186–87; industrial districts in, 4, 222–23; venture capital market in, 395n3

European Venture Capital Association (EVCA), 395n3, 396n11

Everdream, 132

Excite, 281, 301

Excite@Home, 1

Executive search firms, 12–13, 275, 342–54; business culture as challenge for, 347–49; CEO searches by, 348, 349–51; future of, 353–54; geographic location of, 272, 273, 347; number of, 347; search process of, 349–50; unique characteristics of Silicon Valley, 350–51; and venture capitalists, 291, 345–47

Exports, see Trade

Exxon, 308, 349

Failure, 303; climate tolerating, 9, 189, 211, 345; with multiple acquisitions, 115, 116

Fairchild, Sherman, 165, 167, 168

Fairchild Camera and Instrument Corporation, 62, 165–66, 296

Faraday, Michael, 390n5
FdX, 83
Federal Telegraph Company, 153
Filo, David, 112–14
Financial Accounting Standards Board (FASB), rules and regulations of, 358, 359, 364–65
Financial Engines, 336
Fiorina, Carly, 349
Fireman’s Fund (venture capital firm), 241
Firms, 81; communities of practice in, 24–26, 29–30, 30 (fig.), 31, 31 (fig.), 32; and knowledge flows, 26–27, 29, 386n7; and invention/innovation, 26–27; networks of practice between, 28–29, 30–32, 30 (fig.), 31 (fig.), 286n3; reach of, 34–35; reciprocity by, 35–36; small vs. large, 33–34; and venture capitalists, 276–77. See also Corporations
“First Tuesday,” 126
Fisher, Susan, 376–77
Flowers, Tom, 393n11
Fong, Kevin, 286
Foothill College, 212, 385n6
Ford Motor, 308, 349
Forrester Research, 57, 129
Forward, Gordon, 23
Foundry Networks, 326
Friedland, Peter, 110
Frontier Ventures (venture capital firm), 367
Gain Technology, 303
Gaither, Rowan, 235
Garage.com, 126, 294, 309, 324, 335–36, 346; method of operation of, 310–11
Gates, Bill H., 236, 326
Gateway, 128
Genentech, 66, 77, 237, 276, 299
General Electric, 60, 308, 349
Generally Accepted Accounting Principles (GAAP), 360, 362
General MicroElectronics, 183, 373
General Motors, 349
Geographic location: constituting Silicon Valley, 4; computer industry’s shift in, 197; of entrepreneurial innovation, 125–26; of investments by venture capitalists, 234, 277–78, 312; local heroes associated with, 125; and replication of Silicon Valley elsewhere, 37–38, 39; of semiconductor companies, 61–62, 272; of service and industry clusters, 72, 271–73, 372, 394n2; of top U.S. technology companies, 234; of venture capital industry, 234, 236–37, 271, 291, 397n15
Germanium, 61
Ghatia, Sabeer, 139
Gilson, Ronald, 385n5
Ginzton, Edward, 345
Globalism: access to capital with, 87–88; and disk drive industry, 5; and Silicon Valley ethnic social networks, 258–60
GO, 304
Goldman, Sachs & Co. (investment bank), 243
Goncher, Brian, 367
Gordon, Robert, 334
Gosling, James, 119
Gotocom.com, 125
Gould, Jay, 325
Government: as buyer of computer products, 190–91; as early investor in Silicon Valley research, 345; as early-stage developer, 192–93; Joint Venture collaboration with, 56–57; role of, in American system of innovation, 185, 187; as rule maker, 189–90; semiconductor industry involvement by, 66–69; trade protection by, 69, 390n3; university funding from, 186, 187, 191–92, 289, 390n2; venture capital industry role of, 289–90, 299, 396n10. See also Political involvement
Granovetter, Mark, 220
Graphic user interface (GUI), 25, 27, 29
Grassroots.com, 336
Gray Cary (law firm), 334
Grinich, Victor, 160, 161 (fig.), 172, 225
“The Group,” 236, 297
Grove, Andrew, 102, 118, 119; as founder of Intel, 8, 226, 298; on transformation of computer industry, 194–95, 195 (fig.)
Growth: of angel financing, 43, 305; in employment, 44, 51–52, 52 (fig.), 53 (fig.), 54, 54 (fig.); entrepreneurs’ potential for, 101 (table), 110–11; of Silicon Valley firms, 81, 87; of venture capital industry, 43, 73, 77, 79, 277, 293, 301, 306–7, 309, 312; with viral marketing, 139, 141–42, 144–45
Grundfest, Joseph, 335–36
Habitat, Silicon Valley, 4, 385n2; centripetal and centrifugal forces of, 4–5; competitive advantages offered by, 13–15; entrepreneurship encouraged by, 5, 106–7, 211–12, 344–
features of, 6–13; as “industrial district,” 4, 222–23; social networks in, 5–6
Haley, Tim, 346
Hambrecht & Quist, 238, 241, 283, 291
Han, K. Y., 260–61
Hardware industry, 5, 44; employment in, 51, 52 (table), 54, 54 (fig.); geographic location of, 272; value added per employee in, 49 (fig.)
Harmon, Gary, 362
Harmon, Steve, 233
Hart-Celler Act, 248–49
Hayden, Stone & Company (investment bank), 163–64, 166
Hayek, Freidrich, 34–35
Headhunter.net, 353
Headhunters, see Executive search firms
Healtheon, 97, 120
Heesen, Mark, 365–66
Headrick & Struggles (executive search firm), 335, 346, 347, 350, 353
Hennessy, John, 192
Hewlett, William R., 200, 216, 344, 391
Hewlett-Packard, 47, 60, 74, 86, 187; growth of, 68, 125, 127, 203–4, 203 (fig.); Indian software center of, 263–64; as key organization in Silicon Valley, 215–16; management style of, 348, 397n1; marketing by, 64, 386n2; relationships of, with other companies, 83, 87, 110; and Stanford distance learning, 214–15; as Stanford start-up, 1, 203–4, 203 (fig.), 205 (fig.), 206, 215–16
Hillman, Henry, 65
HMT Technology Corporation, 365
Hodgson, Richard, 165, 167, 168
Hoefler, Don, 47, 224, 226
Hoerni, Jean, 182, 183; as founder of Fairchild Semiconductor, 160, 161 (fig.), 225; planar process development by, 159, 173, 174, 175, 176; in semiconductor industry social network, 227, 228
Hoff, Ted, 65
Hoffman Electronics, 181
Homebrew Computing Club, 6, 47, 65
Homestead, 143
Honeywell, 70
“Hot groups,” 345
HotJobs, 353
Hotmail, 149, 326; acquired by Microsoft, 147, 148, 288; founding of, 139–40; growth of, 139, 144, 147; viral marketing by, 140–42, 144–45
Hsinchu region (Taiwan), 259–63, 394n7
Hughes Semiconductor, 167
Hybritech, 237
IBM, 3, 87, 196, 349; and Fairchild Semiconductor, 167, 168, 170, 171; government involvement with, 185, 192; growth rate of, 87; and Intel, 70, 73, 188; as leading computer firm, 70, 184, 187, 197; and microcomputer revolution, 70, 72, 74, 187, 188
ICQ, 133, 141–42, 143
Ideas: dissemination of, and communities of practice, 25–26; fluidity of, with localization, 32–33; spread of, with Internet, 127–28. See also Inventions; Knowledge
Ideas Hub (venture capital firm), 309
Immigrant entrepreneurs, 8–9, 248–68; as facilitating globalization, 258–60; legislation increasing number of, 248–50; professional associations of, 254–58, 256–57 (table), 394n4; sense of exclusion of, 251–52; start-ups by, 251–53, 253 (table), 261, 262–63. See also Chinese immigrants; Indian immigrants
Immigration Act of 1965, 248–49
Immigration and Nationality Act of 1990, 249, 250
incubate.com (venture capital firm), 309
Incubation: Silicon Valley’s role in, 54–55; venture capital firms’ programs for, 304–5, 309
“Index of Silicon Valley” (Joint Venture), 11
India: e-mail providers in, 141; software industry in, 258, 260, 263–66, 382; venture capital market in, 277–78
Indian immigrants, 249, 250, 267; and “glass ceiling,” 250–51; professional organizations of, 254–58, 256 (table), 394n4; start-ups by, 252–53, 253 (table). See also Immigrant entrepreneurs
The Indus Entrepreneur (TiE), 6, 256 (table), 258
Industrial district, Silicon Valley as, 4, 222–23
Industry clusters: defined, 48; employment growth by, 44, 51–52, 52 (fig.), 54, 54 (fig.); evolution of, 50–51, 50 (table), 51 (fig.); geographic location of, 271–73, 394n2; and
Industry clusters (continued)
proximity, 4, 48, 50; spread of knowledge in, 30–31, 32; value added per employee by, 49 (fig.). See also Localization
Information technology, 1, 277
Infrocket, 143
Initial public offerings (IPOs), 307; accountants’ help with, 361–64; in venture capital industry, 288–89, 306, 307; Internet-related, 323; number of, 2, 73, 234; social networks involved in, 241–45, 243 (fig.), 393nn17–18
Inktomi, 127, 308
Innovation, 24, 46; and American system, 7, 185–88; in business models, 81–93; and community issues, 56–57; by entrepreneurs, 99–100 (table), 106–7; economic, and Silicon Valley, 46–48, 47 (fig.), 57–58; and invention, 26–27; locus of, 125–26; and venture capital, 295–96. See also Inventions
Innovation Factory (venture capital firm), 309
Institute of Electrical and Electronic Engineers, 255
Institutional Venture Associates (IVA) (venture capital firm), 236
Institutional Venture Partners (IVP) (venture capital firm), 236, 238, 241, 297, 307, 346
Integrated circuits (ICs), 62, 64; development of, 3, 176–77, 225, 372, 389n45; Moore’s Law of, 25–26, 65; as technology shaping Silicon Valley economy, 47, 47 (fig.)
Integrated Silicon Solutions, Inc. (ISSI), 261
Intel, 1, 26, 27, 84, 85, 87, 125; consumer product marketing by, 64, 66, 196; and IBM, 70, 73, 188; and microprocessor, 3, 65, 70, 188, 196, 204; as Silicon Valley start-up, 202, 203 (fig.), 206; as spin-off from Fairchild, 33, 47, 63, 183, 206, 226; and venture capital, 63, 65, 235, 276, 297, 298, 308, 311
Interaction costs, decline in, 82–83
International Angel Investors Institute, 309
Internet, 84, 124–49, 192; and commercial bank services, 323–24; and competition, 196–97; and consulting, 376–77; and entrepreneurship, 124, 126, 128; evolution of businesses based on, 54, 146–49, 340–41; and geographic location, 126, 272; and lawyers’ role, 336–38, 341; recruiting using, 353–54; start-up advantage with, 127–28; as technology shaping Silicon Valley economy, 47 (fig.), 48, 57–58, 197–98; and venture capital industry, 75–78, 300–301, 307, 323; viral marketing on, 138–46. See also E-commerce
Internet Capital Group (ICG) (venture capital firm), 92, 346
Intersil, 183
Interwest Partners (venture capital firm), 241
Intraspect Software, 110
Inventions, 3; movement to innovation from, 26–27; “stuck” in local communities, 25–26. See also Innovation
Investment banks, 163; IPO involvement by, 241, 242, 243; and venture capital industry, 284, 291, 296
IPOs, see Initial public offerings (IPOs)
Israel, technology industry in, 266–67, 382, 383
J
Japan: American-type rules enacted in, 190; in competition with U.S. computer industry, 187, 300; semiconductor competition from, 67–69, 390n3
Jaunich, Bob, 349
Java fund (venture capital fund), 283
JavaSoft, Inc., 139
Jobs, Steve, 6, 64, 65, 70, 95, 237
Johnson, Pitch, 391
Joint Venture: Silicon Valley Network, 11, 381; challenges to Silicon Valley identified by, 55–56; innovative social programs of, 56–57; Smart Valley program of, 56, 122, 381–82
Jordan, David Starr, 153
Joy, Bill, 192
Juniper Networks, 78, 305, 307
Juno, 139, 140, 141
Jurvetson, Steve, 43
Kagle, Robert C., 236
Kalinske, Tom, 349
Kana Communications, 137, 147
Kapor, Mitch, 286, 329
Karlgaard, Rich, 335
Kasper, 183
Katzen, James A., 236
Kawasaki, Guy, 310, 335, 336
Keietsu, 92, 281
Kemp, Jack, 75
Khosla, Vinod, 8, 192
Kilby, Jack, 389n45
King, April, 346
Kirkpatrick, David, 116
Kleiner Perkins Caufield & Byers (venture capital firm), 68, 79, 297; changes in investment by, 74, 77; establishment of, 65, 182, 237; incubation program of, 304, 305; Java fund of, 283; keiretsu structure of, 281; types of risk encountered by, 77–78, 298; in venture capital network of firms, 238, 241
Kleiner Perkins fund, 43, 44
Knowledge: actionable, 23; flows of, 26–27, 29, 386n7; leaks of, 37; in and about Silicon Valley firms, 20–22, 386n2; new, Silicon Valley concentration of, 7–8, 14–15; shared, 10, 94–95, 211–12, 344, 345, 370, 374, 379; and shared practice, 22–23, 24–26; spread of, 27–32. See also Ideas; Inventions
Kodak, 349
Korn Ferry (executive search firm), 347, 350, 353
Kortchak, Walter, 363–64
Kourey, Michael, 357, 360, 367
Krenz, Charles, 391
Krugman, Paul, 4–5
Kurtzig, Sandy, 378
Kvamme, E. Floyd, 43

INDEX / 417

Labor market, 342. See also Employees; Workforce
Lally, Jim, 68
Lam, David, 251–52
Lamoreaux & Associates (venture capital firm), 239
Lam Research, 252
Larson, Andrea, 223
Last, Jay, 227; as founder of Fairchild Semiconductor, 160, 161 (fig.), 225; work done at Fairchild Semiconductor by, 159, 169, 177, 182
Law of Diminishing Firms, 33
Law of the Microcosm, 33
Laws: American system of, favoring innovation, 7, 185–86, 189–90, 385n5; protecting semiconductor industry from Japanese trade practices, 68–69; tolerating failure, 9, 189
Lawyers, 12, 72, 274, 291, 325–41; as business advisers, 327–29, 330–31; choice of clients by, 332–33; as coaches, 12, 328, 329–30; emotional support provided by, 329–30; evolution of role of, 334, 341; geographic concentration of, 271, 273; and Internet, 336–38; in IPO social network analysis, 242, 243, 244; Silicon Valley, defined, 327; in social networks, 221, 331–32, 335–36; start-up role of, 328–31, 335–36; unique role of, 327, 328, 330
Leadership, by entrepreneurs, 97, 99 (table), 102
Lee, Chong-Moon, 363
Lee, David, 251
Lee, Jimmy, 261
Lee, Lester, 251
Lenkurt, 60
Leonard-Barton, Dorothy, 23
Lepeak, Stan, 377
Lewis, Michael, 120
Life sciences, and venture capital, 277
Limited partnerships, venture capital firms as, 9, 238, 284–85
Linear Technology Corporation, 90
Linvill, John, 391
Lipstream Networks, 310
Listwin, Don, 114
Local heroes, as important for entrepreneurship, 125–26
Localization: and communication, 17–18, 35, 37; fluidity of ideas with, 32–33; hybrid character of, 17, 386n1; industrial, 16, 17–18, 19, 32, 33, 35, 37; labor mobility with, 32; reciprocity with, 35–36; studies of, in Silicon Valley, 16–17. See also Industry clusters; Proximity
Lockheed, aerospace division, 60
Los Angeles, local heroes in, 125
Lotus, 72, 329
LSI Logic, 73
Lucent Technologies, 307
Lycos, 125, 311
Lyon, Ray, 393n11

McCracken, Ed, 10, 213
McKenna, Regis, 221
McKinsey & Company’s Global Institute, 82, 83, 89
Mackun, Paul, 347–48
McLuhan, Marshall, 135
McMurtry, Burton, 236, 296, 297
McNealy, Scott, 76, 91, 117–19, 192, 326
MAGE (computer graphics program), 226, 238, 242, 392n2
Magna Power Tools, 235
Magnifi, 131
Management Recruiters (placement firm), 353
Management teams: building, 115–16; in changing company, 118; and start-ups, 206–7; and venture capitalists, 280–81, 282, 346; working with entrepreneurs, 98 (table), 105. See also CEOs; Executive search firms
Managerial style: democratic, of “T raitorous Eight,” 225, 372; of entrepreneurs, 98–99 (table), 104
Manpower (placement firm), 353
Manufacturing: “no bricks and mortar” (contract), 83–84, 89; and Silicon Valley, 5, 373, 381; silicon (Fairchild Semiconductor), 170–71, 177–79, 181–82
Manugistics, 131
Marin County, Fairchild Semiconductor plant in, 176, 180
Market: controlling, 103; reverse, 84; target, 100 (table), 108–9
Marketing; by Fairchild Semiconductor, 159, 167–72; consumer, after Apple phenomenon, 71, 74; of consumer products by semiconductor companies, 64–65, 66; viral, 138–46
Market risk, 77–78, 298
Marquardt, David F., 236
Marshall, Alfred: on localization, 16, 17–18, 19, 32, 33, 35, 37; on mysteries in the air, 16, 19, 20, 22, 27–28; subsidiary trades concept of, 17, 31
Massachusetts, see Boston area
Massachusetts Institute of Technology (MIT): computer research and design at, 61, 188; and government funding, 187, 191, 192
Maxim Integrated Products, 90, 228
Mayfield Fund (venture capital firm), 238, 297, 300, 302–3, 304, 346; founding of, 236, 296; growth of, 307
MBAs, 74, 76
Melchor, Jack, 296, 297, 300
Melchor Venture Management (venture capital firm), 239
Memorex, 296
Menlo Park: consultants in, 271, 273; executive search firms in, 347; venture capital firms in, 234, 236–37, 271, 297
Menlo Ventures (venture capital firm), 241
Meritocracy, 8–9, 343
Merrill, Pickard, Anderson & Eyre (venture capital firm), 238, 297, 300, 302–3, 304, 346; founding of, 236, 296; growth of, 307
Mesa transistors, 175; discovery of structure of, 162, 387n6; manufacturing of, 168–69, 179
Metaphor, 206
Metcalf, Bob, 299–300
Metcalf’s Law, 127
Microprocessors, 3, 65, 70, 188, 196, 204. See also Personal computers
Microsoft, 19, 27, 125, 204, 326; growth of, 127, 203, 203 (fig.); Hotmail acquired by, 147, 148, 288; operating system of, 188, 196; partnering with, 128, 196–97; and venture capital industry, 91, 236, 284; venture funding by, 308, 311
Milbank Tweed (law firm), 334
Military, see Defense
Miller, William F., 103, 379, 385n2, 391
Mimeo.com, 143
Mind share, 90–91, 111
Minuteman missile program, 172–73, 179, 180
MIT, see Massachusetts Institute of Technology
Mitchell, Tom, 391
Mohr, Davidow Ventures (venture capital firm), 297
Mohr, Lawrence G., Jr., 393n16
Molectro, 183
Momenta, 303
Monster Board, 353
Monte Jade Science and Technology Association (MJSTA), 6, 255, 256 (table), 258, 262
Moore, Nick, 356, 367
Moose, Bud, 393n11
more.com, 360
Morgan, Jim, 348
INDEX / 419

Morgan Stanley Dean Witter (investment bank), 243
Morgridge, John, 107
Moritz, Michael, 303–4
Mosaic, 76, 198
Motivation, of entrepreneurs, 96–97, 98 (table)
Motorola, 62, 67, 70, 175, 181, 349
myCFO, 120
Myers, Gib, 298, 303
Myers, Mark, 212
“Mysteries in the air,” 16, 19, 20, 22, 27–28

NASDAQ, 396n11
National Cash Register (NCR), 70, 196
National Science Foundation, 192
National Semiconductor, 1, 70, 73, 373; consumer product marketing by, 64, 66; as spinoff from Fairchild Semiconductor, 47, 62, 62–63
National Venture Capitalist Association, 79
Naval Air Development Center (NAD), Crane, 60
NEA, 300
Netcentives, 134
NetMind/Puma, 146
Netscape, 1, 120, 300; growth of, 48, 76, 86–87; as Silicon Valley start-up, 203, 203 (fig.), 206; and venture capitalists, 280, 304; and Yahoo!, 113, 114
Network effects, 85–86, 147
Networks of practice, 28–29, 30–32, 30 (fig.), 31 (fig.), 286n3. See also Social networks
NetZero, 125, 127, 133, 134, 136, 142
The New Venturers (Wilson), 301–2
“No bricks and mortar manufacturing,” 83–84, 89
Nohria, Nitin, 223
Nortel, 307
North American Chinese Semiconductor Association (NACSA), 255, 257 (table)
North American Taiwanese Engineers Association (NATEA), 255, 257 (table)
Northeast, as center of computer industry, 194, 197. See also Boston area
NorthPoint Communications, 308
Novell, 125, 264
Noyce, Robert, 167, 169, 171, 309–10; and democratic corporate culture, 225; as founder of Fairchild Semiconductor, 158, 159, 160,
161 (fig.), 166, 225, 296; as founder of Intel, 63, 183, 225, 226, 298, 372; and integrated circuit, 176–77, 225, 372; and planar process, 173, 174, 175
Occupational communities, 386n3
OEMTek, 356
Olivetti, 349
Olsen, Ken, 96
Only the Paranoid Survive (Grove), 118
Open standards, 10, 86–87, 194, 196–97
Oracle, 1, 84, 87, 264
Organization for Economic Cooperation and Development (OECD), 185
Outsourcing, by entrepreneurs, 100 (table), 107, 108
Ownership, by entrepreneurs, 98 (table), 102–3
Pacific Semiconductors, 181
Packard, David, 123, 216, 237, 344. See also Hewlett-Packard
Palladium (venture capital firm), 307
Palm Computing, 305
Palo Alto: consultants in, 271, 273; executive search firms in, 347; law firms in, 271, 273
Palo Alto Investments (venture capital firm), 296
Papows, Jeff, 23
Partnering: with customers, 109–10; by Internet-based companies, 147–48; R&D, 66; with start-ups vs. established companies, 128. See also Collaborations
Passion: of entrepreneurs, 95, 361; in Silicon Valley worklife, 344
Patent laws, 189–90
Patterson, David, 192
Pension funds, as investors in venture capital funds, 282–83, 299
Personal computers, 25–26, 73–74; and Apple, 70–71; development of microprocessors for, 3, 65, 70, 188, 196, 204; shaping Silicon Valley economy, 47–48, 47 (fig.)
Philanthropy, 122, 382
Piore, Michael J., 222
Pittsburgh, 2, 125
Placement agencies, 352–53
Planar process, 3, 173–76
PlanetU, 134
Plessey (English telecommunications company), 62
Polese, Kim, 310
Political involvement: of semiconductor firms, 66–69; of Silicon Valley businesses, 75. See also Government
Polycom, 360
Porter, Michael, 4
PowerPoint, 284
Practice, 14; communities of, 24–26, 29–30, 30 (fig.), 31, 31 (fig.), 32; networks of, 28–29, 30–32, 30 (fig.), 31 (fig.), 386n3; shared, 22–23, 24; and theory, 23, 25–26
Precept Software, 116
PricewaterhouseCoopers (accounting firm), 271, 335; and IPO institutional social network analysis, 242, 243, 244; start-ups aided by, 360, 361–62, 366–68
Principles of Economics (Marshall), 16, 18
Productivity, 55; with clustering, 48–50; and high wages, 48, 49 (fig.); measured in value added per employee, 48, 49 (fig.)
Products: consumer, and semiconductor industry, 64–65, 66; for start-ups, 205–6; and venture capital firms, 303–4
Professional associations: ethnic, 254–58, 256–57 (table), 394n4; main Silicon Valley, 67–68, 255, 394n3; spread of knowledge in, 30, 386n4
Professional services, see Business infrastructure
Profits: 52, 54, 85–86
Proximity: and clusters, 4, 48, 50; of suppliers, 35–36; and venture capital industry, 292. See also Localization
Purdue University, 60
Puri, Manju, 281
Quality of life, in Silicon Valley, 11, 55–56, 380
Quantum, 71
Quantum Computer Services, 74
Quindlen, Ruthann, 286
Quindlen, Ruthann, 286
Qume, 71, 251
R&D, 2, 66, 99–100 (table), 107–8, 115
Rambus, 361–62
Ramsey-Beirne (executive search firm), 350
Raytheon Semiconductor, 61, 62, 63
Reach, of firms, 34–35
Reciprocity, with localization, 35–36
Recortec, 251
Recruitment, 352–54. See also Executive search firms
Red Hat, 307
Redpoint Ventures (venture capital firm), 307
Regional Advantage (Saxenian), 6
ReleaseNow.com, 145
Replay Networks, 134–35
Replication, of Silicon Valley, 37–38, 39
Returns to scale, 84–86, 127
Revenue recognition, 359–60
Reverse markets, 84
Rheem Semiconductor, 175, 181, 228
Risk: and commercial banks, 317; and entrepreneurs, 103–4; favorable climate for, 9–10; techniques for managing, 104; and venture capital, 77–78, 209, 276, 296, 298, 317
Robert Half International (placement firm), 353
Roberts, Sheldon, 150, 161 (fig.), 182, 225, 227
Robertson, Sandy, 65, 237
Robertson, Stephens and Company (investment bank), 291
Rockefeller, Laurence S., 235, 296
Rothschild, Michael, 339, 340
Round Zero, 367
Rowen, Henry S., 391
Russell Reynolds (executive search firm), 347
Ryle, Gilbert, 23, 25
S3, 83
Saal, Harry, 122–23, 123
Sabel, Charles E., 222
Safeguard Sciences, 311–12
Sales risk, 77
Saltare.com, 131–32
Salt Lake City, local hero in, 125
Sanders, Jerry, 62, 63
San Francisco, 72, 235–36, 297, 372
“The San Francisco Mafia,” 236
San Jose State University, 38, 385n6
San Rafael, Calif. (Fairchild Semiconductor), 176, 180
Santa Clara University, 38, 212–13, 385n6
Santa Clara Valley agriculture, 153, 200
Saper, Jeff, 363
INDEX / 421

Saxenian, AnnaLee, 6, 16, 194, 220, 222–23, 246
Schlumberger, 349
Schmidt, Eric, 117
Schools, see Educational institutions
Schumpeter, Joseph, 34, 46, 386n6
Scientific Data Systems, 235, 297
Sculley, John, 348, 349
Seagate Technology, 71, 236
Seattle, see Washington state
Securities and Exchange Commission (SEC), rules and regulations of, 358, 359, 362, 364–65
SeeUthere.com, 142
SEMATECH, 68–69, 75, 212
Semiconductor Equipment and Materials International (SEMI), 224, 226
Semiconductor industry: employment in, 52 (table), 54 (fig.); fabless companies in, 83; geographic location of, 61–62, 272; history of, 47, 73, 224–26; Japanese competition in, 67–69, 390n3; marketing by, 64–65, 66, 69–70; political involvement by, 66–69; social network analysis of, 226–29, 227 (fig.), 228 (fig.), 394nn2–6; Stanford's contribution to, 201–2, 214; value added per employee in, 49 (fig.). See also individual firms by name
Semiconductor Industry Association (SIA), 68
Sequoia Capital (venture capital firm), 237, 297, 303–4, 346
Serial entrepreneurial style, 119–21
Service businesses, web-deployed, 132–33
Services, see Business infrastructure
Shaneen, George, 351
Sharp, Michael, 186
Shearman & Sterling (law firm), 325–26, 337
Shockley, William, 227; at Bell Telephone Laboratories, 60, 160; Shockley Semiconductor founded by, 160–62, 224–25; transistor invented by, 60, 160, 371; working relationships of, 162–63, 225, 371, 372
Shockley Semiconductor, 47, 60, 224–25; and Fairchild Semiconductor, 160–63, 225; and “T raitorous Eight,” 160, 161 (fig.), 162, 163–64, 225, 296, 371–72
Shockley Transistor, 9, 27
Shutterfly, 120
Sierra Capital (venture capital firm), 239, 241
Signetics, 63, 183
Silicon Graphics (SGI), 1, 222; founding of, 120, 204, 304; and Stanford, 201, 206, 213–14
Silicon Valley, 4, 47, 125, 343–46
Silicon Valley Bank, 274, 318–24, 335
Silicon Valley Community Foundation, 382
Sinha, Gunjan, 103
Small Business Act of 1958, 193
Small Business Administration (SBA), 396n10
Small Business Enterprises (venture capital firm), 241
Small businesses: owners of, 96–111, 98–101 (table); and web-deployed services, 132
Small Business Investment Corporation (SBIC) program, 193, 235, 289, 396n10, 397n14
Smart Valley, 56, 122, 381–82
Smith, Jack, 139
Snap Track, 336
Social equity, 55, 381
Social networks, 218–47; boundary spanning units in, 233, 392n10; centrality in, 227–29, 240–41, 392n5, 393n16; cross-institutional, 241–45, 243 (fig.), 393nn17–18; defined, 219; of entrepreneurs, 5–6, 94–96, 100 (table), 108; as governance mechanism, 222–23; of immigrant entrepreneurs, 254–58, 256–57 (table), 258–60, 394n4; and labor market, 220–21; lawyers in, 221, 331–32, 335–36; and semiconductor industry, 226–29, 227 (fig.), 228 (fig.), 392nn2–6; as source of power and influence, 221–22; and venture capital industry, 237–41, 239 (fig.), 240 (fig.), 393nn11–16. See also Networks of practice
Software Arts, 329
Software Entrepreneurs Forum, 255
Software industry: employment in, 44, 51, 52 (table), 54 (fig.); geographic location of, 272; growth of, 43–44, 51, 54, 54 (fig.); in India, 258, 260, 263–66, 382; value added per employee in, 49 (fig.)
Software Technology Parks (STPs), 264
Sonsini, Larry, 378
Speed: of acquisitions negotiations, 116; as advantage, 13–14, 109, 210–11, 376; in Internet era, 127, 147; and venture capital industry, 307;
SpencerStuart (executive search firm), 347, 350
Sperry, 196
Spin-ins, see Acquisitions
Spin-offs: from Fairchild Semiconductor, 10, 47, 62–63, 175, 182–83, 206, 226, 297; and social networks, 223; in venture capital industry, 236, 239. See also Start-ups
Sporck, Charles, 62
SRI International, 3
Stamps.com, 308
Standards, open, 10, 86–87, 194, 196–97
Stanford Alumni Association, 391
Stanford University, 38, 60, 191–92, 200–217, 385n4; research centers, 231–33, 392n10; Silicon Valley role of, 10, 153, 201–2, 206, 212, 213–17, 230–33; Stanford Industrial Park (Stanford Research Park), 160, 230; start-ups associated with, 1, 114, 201, 202–5, 203 (fig.), 205 (fig.); technologies developed at, 3, 188; University Honors Cooperative Program, 230, 392n7
Start-ups, 3, 185, 385n3; and accountants, 356–57, 361–64, 366–69; and angel investor funding, 207–8, 309–10, 346, 391n5, 395n2; business infrastructure for, 72, 210–13; competitive advantage of, 127–29; founders of, 121, 207, 282, 397n13; by immigrant entrepreneurs, 251–53, 253 (table), 261, 262–63; numbers of, 204, 391n1; and lawyers, 328–31, 335–36; requirements for successful, 205–13; sources of capital for, 207–10, 262–63, 309–10, 395n2; Stanford, 1, 114, 201, 202–5, 203 (fig.), 205 (fig.); sustainability of Internet, 146–49; and venture capital, 160, 33, 34, 63, 65–66, 120, 208–9, 281. See also Spin-offs
Stavers, Bob, 356
Sterling, John W., 325–26
Stock market, 287–88, 396n11
Stock / stock options, 104, 351, 358–59; and talent instability, 91–92; evolution of, 60, 63, 373–74, 396n8; and venture capitalists, 279, 395n6–7
Sumitomo, 311
Sun Microsystems, 1, 8, 86, 87; and entrepreneurial style, 117–19; and suppliers, 35–36, 84; and Stanford, 192, 201, 206; and venture capital, 73, 276; and workstation development, 48, 73, 74, 204, 300
Suppliers, 35–36, 71–72, 84, 177–79
Sutherland, Bert, 391
Sutter Hill Ventures (venture capital firm), 296
Sybase, 303
Symantec, 396n12, 397n13
Syracuse University, 60
Tai, Ken, 262–63
Taiwan: hardware industry in, 382, 383; Hsinchu region of, 259–63, 394n7; immigrants from, 249, 250; as source of capital for start-ups, 262–63. See also Chinese immigrants
Talent, see Employees; Management team; Workforce
Tandem Computers, 66, 68, 70, 77, 237, 299
Tate, Geoff, 361, 362
Tech Coast Angels, 309
TechFarm (venture capital firm), 309
TECHNET (Technology Network), 75
Technical risk, 77–78, 298
Technology, 1, 3, 25–26, 198–99, 277; shaping Silicon Valley economy, 46–48, 47 (fig.)
Technology Venture Investors (TVI; venture capital firm), 236
Technopoles, 37
Teledyne, 182, 296
Telegra, 356
Temporary employees, 90, 352
Terman, Frederick, 217, 391; and Hewlett-Packard, 215–16, 371; influence of, on Silicon Valley, 215–16, 315, 344–45; and Shockley, 161, 224; Stanford programs founded by, 230
Texas, 125, 197
Texas Instruments, 64, 389n45, 394n12; and Fairchild Semiconductor, 62, 67, 170, 175, 181
Theory, and practice, 23, 25–26
Thielen, Larry, 391
ThingWorld.com, 308
Third Voice, 133, 143
Thomas, Pete, 236
Thomas Weisel Partners (investment banking firm), 342, 353
Thompson, John W., 349
3Com, 1, 21, 48, 74, 204, 206, 300
Time: and Internet, 127–28; for new companies, 185. See also Speed
Timmons, Jeffry, 94
Tivo, 134–35
TMP Worldwide (executive search firm), 353
Tolia, Nirav, 368
Trade, 52, 53 (fig.), 67–69, 259, 390n3
Tradex, 131
“Traitorous Eight,” 160, 161 (fig.), 162, 163–64, 225, 296, 371–72
Transformational entrepreneurial style, 116–19
Transistors: development of, 60, 160; and...
Fairchild, 159, 167–72; flow of knowledge about, 25, 27; mesa, 162, 168–69, 175, 179, 387n6; and planar process, 171–76; silicon vs. germanium, 61, 161
Tri-state logic, 65
Trust, 36, 219
TRW, Space Technology Laboratory, 60
Tumbleweed Communications, 143, 147
Turner, Ted, 326
TVI (venture capital firm), 307
Unger, Bill, 346
Univac, 70
Universities, see Educational institutions
University of California at Berkeley, 3, 11, 38, 191–92, 212, 250, 259
University of California at San Francisco, 212, 385n1, 385n4
University of Texas, 188
U.S. Global Entrepreneurship Monitor, 309
Valentine, Donald, 210–11, 237, 297, 298, 303, 379, 391
Value added per employee, 2, 48, 49 (fig.), 81
Varian Associates, 3, 47, 230
Venture capital, 300–301, 395n3; contracts for, 279–80, 395nn5–7, 396n8; corporations as source of, 209–10, 283–84, 294, 308–9; defined, 276, 395n3; as enabling innovation, 34, 295–96; history of, in Silicon Valley, 234–37, 238, 239 (fig.), 296–98; invested in Silicon Valley, 2, 43, 88, 234, 277, 312; requirements for obtaining, 298–300; and start-ups, 33, 34, 63, 65–66, 120, 208–9, 281; types of companies receiving, 65–66, 277, 278
Venture capital firms/funds: approaches of, 302–4, 309–12; and diversification, 285; and "entrepreneur in residence," 305, 397n16; first (San Francisco), 182, 235–36, 297; geographic location of, 234, 236–37, 271, 273, 291, 397n15; incubation programs of, 304–5, 309; and investment stages, 279–80, 304–6; ownership of, 282–84, 396nn9–10; size of, 43, 73, 77, 309; structure of, 9, 92, 193, 238, 284–85
Venture capitalists, 276–94; background of, 221, 234, 286–87, 298–99, 378–79; and banks, 291, 319–20; as coaches, 12, 277, 279–82, 301–2, 306, 395n1; compensation for, 286; and entrepreneurs, 280–81; and executive search firms, 291, 345–46; professional, as source of capital for start-ups, 208–9, 391n6; purchasing interest in start-up companies, 120; in social networks, 221–22
Venture Economics, 73, 395n4
Venture Law Group (law firm), 291, 326, 332–33, 335–36, 338
Venture One, 395n4
VeriSign, 308
Vertical integration: in computer industry, 194–95, 195 (fig.); in consumer e-commerce, 133–38
Viral marketing, 138–46; in e-commerce, 143; and Hotmail, 139–42, 144–45; model for, 141–42; strategies for, 144–46
VisiCorp, 329
Visioneer entrepreneurial style, 112–14
Vivaldi, 143
Wages, see Compensation
Walden International Investment Group (venture capital firm), 261
Walton, Sam, 96
Warner Communications, 237
Washington state, 125, 197
Watson, Thomas, Jr., 168
WebTV, 326
Welch, Bob, 356
Western Association of Small Business Investment Companies (WASBIC), 393n11
Western Association of Venture Capitalists (WAVC), 297, 393n11
Western Business Assistance Corporation (venture capital firm), 234
Western Electric, 169, 171
Western Electronic Manufacturers Association, 67
Westven Management Company (venture capital firm), 241
Whitney, J. H., and Company (venture capital firm), 164
Whitney, John H., 235, 296
Williams, Darby, 368
Wilson, Jack, 302
Wilson Sonsini Goodrich & Rosati (law firm), 72, 230, 243, 244, 291, 334, 335; growth of, 271, 326
Wireless technologies, 198–99
Wolfe, Tom, 225
Workforce, 50, 81–82; contingent, 92; engineering, immigrants in, 248, 249–50; and location of Internet companies, 50; mobility of, 8, 32, 91–92, 189, 211, 220–21, 385n5; and placement agencies / contingency search firms, 352–53; and scarcity, 89–90, 342–43. See also Employees; Management teams
Wozniak, Steve, 6, 65, 70
Wyrthes, Paul M., 296
Xerox, 349
Xerox Palo Alto Research Center (PARC), 230; graphical user interface knowledge at, 25, 27, 29; technologies developed at, 3, 206, 216
Yahoo!, 111, 125; founders of, 8, 112–14; growth of, 85–86, 127; lawyer involvement with, 326, 333; venture capital aiding founding of, 276, 301, 304
Yang, Geoff, 308
Yang, Jerry, 8, 112–14
Yelverton, Jack, 226
Young, John, 214
Zitel, 356