

HOW
FOUNDERS
CAN BRING SUCCESS
TO
**THE NEW SILICON
VALLEY IN CHINA**



Dr. E. Ted Prince



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INTRODUCTION

Why Do Silicon Valleys Succeed or Fail?

The Silicon Valleys of My Life

Although I never planned it that way, much of my working life has been bound up with a series of Silicon Valleys. And not just in the US, where I have lived for 30 years.

In the early 1980s I was the Chief Information Officer for the Australian Social Security agency. We were big users of computers. So I used to go to the US regularly to visit computer and software companies to evaluate what they were doing.

Those companies were in two places, Silicon Valley in and near San Francisco, and in Boston on the Route 128 Corridor. I used to visit then-hot technology companies like National Semiconductor and Amdahl in Silicon Valley and Wang and Data General on Route 128. In those days it was the Route 128 Corridor that was the real “Silicon Valley” while the tech cluster in San Francisco and San Jose was still in the earlier stages of development. Boston was really where all the action was at.

When I finally moved to the US in the mid-1980s, I lived in New York. That was not even attempting to be a Silicon Valley. But the company I started there was owned by an Australian company, and we had our own connections to people who wanted to start an Australian Silicon Valley, although in those days it wasn't called that.

In the mid-1980s the government of the state of Victoria decided that it wanted to start up a tech cluster like the ones in the US. So they chose my company (and several others) to identify Australian startups that could form the nucleus of a new tech cluster – an Australian Silicon Valley – in Melbourne, Australia.

So as well as my usual job running a startup in New York, I got involved in helping choose Australian companies for the new Australian Silicon Valley, but doing it mainly from New York. The short story is that the attempt failed miserably. We will talk about why later in this chapter. But the fact that a government was involved was a major factor in this failure.

I thought that was the end of my nascent career as a venture capitalist. But I was wrong. In the late 1980s my company formed a joint venture with the UK government to start a new software company in the UK. The location of the company was near Oxford. As you may know, that is where the most famous university in the UK, Oxford University, is situated. I became the interim CEO of this new software company while I found a permanent CEO.

You are probably aware that the UK, like just about every other developed country in the world, has had its own ambitions to set up its own Silicon Valley. One place chosen was around Oxford University, just like Silicon Valley is around Stanford University. So I unwittingly became a part of the startup scene in the UK version of Silicon Valley when it was getting started.

In its own way it has been quite successful but of course it is nothing compared to the real thing in the US. I would love to say that the startup I was associated with in the UK Silicon Valley was very successful, but it wasn't. Most of the reason was that it was partly owned by the UK government. Just like the failure of the Australian Silicon Valley in Victoria, this one also suffered greatly from being partly owned by a government entity.

I don't think I would have had much if anything to do with the Silicon Valley of the West Coast except that in the early 1990s I was invited to join the board of a software company based in – actually near – Silicon Valley on the West Coast. So I used to fly across the American continent every month or so to do my duty as a director.

There I was able to observe the rapid expansion of the West Coast Silicon Valley. It wasn't then like it is these days but it was already starting to burst out of its seams.

The venture capitalists were starting to take over. Founders were starting to move from Boston to the West Coast, just as Facebook did much later in 2004.

My life in any type of Silicon Valley might also have ended there but it didn't. In the 1990s I found myself running a company in the Boston area near the Route 128 Corridor, right in the middle of the tech cluster.

I was running a public software company there. We had partnerships with numerous tech companies and investors in the Boston area. Not only that, we also had some relationships with partners in Silicon Valley of the West Coast. But by this time the Silicon Valley of the east in Boston was already on the way down, and the San Francisco Silicon Valley was rapidly on the way up.

So my life put me on the downslope rather than the upslope, although the downslope in Boston for anyone else in the world would still have been an upslope. I was still a participant, not a spectator, but I was a participant in a declining Silicon Valley and not in the big one growing up on the other coast of the US. But I was still a part of a tech cluster on Route 128 that was the second largest Silicon Valley in the world, still way ahead of anything else in the world except in San Francisco.

That was interesting enough but life had another Silicon Valley to throw at me. In the early 2000s I became the CEO of a startup whose head office was in New York, but whose technical headquarters was in Tel Aviv in Israel. In fact its headquarters were in Ramat Gan, known as the epicenter of the Silicon Valley that Israel was starting up.

The Israeli Silicon Valley – Silicon Wadi – has been and in still is one of the most successful and dynamic in the world. If you want copy any tech cluster, the one to follow is the one in Israel. In my role as CEO of an Israeli/US tech startup I observed with fascination the way the Israelis did it and what had made them such a success. We'll talk more about that later in this chapter.

I still have many links to the "real" Silicon Valley on the West Coast of the US. But as you can see, the links I have had with some of the other Silicon Valleys has provided me with another perspective on how they grow, evolve, and then probably decline. Nothing is forever.

How Silicon Valleys Evolve

When I was a kid going to grammar school in the UK, if you wanted to be a scientist, you had to learn German. That was because all the top scientific and technology journals were in German in the 1950s. All the best science and technology came out of Germany, so if you didn't speak German, you couldn't be a serious player in science and technology. In other words, you couldn't be an innovator in tech. In those days you had to learn German if you wanted to be a global innovator just as in these days you have to speak English if you want to be a global player and innovator.

So the Silicon Valleys of the 19th century were in Germany. They were based on research universities in the German states, just as the West Coast Silicon Valley in the US is based around Stanford University. Just like the US Silicon Valley, the German equivalent was partly based on the immigration of talented researchers and innovators into them from other German states and from other parts of the world.

Most people think that there is only one Silicon Valley in the US. They are wrong. There are several. The Silicon Valley in and around San Francisco is only the latest tech cluster in a series of them. It is so far the most prolific and successful, but there are others, and any one of these could yet become more important than the one in San Francisco.

As I mentioned previously, I have run companies in the Boston area in and around the Route 128 Corridor. In the 1980s it was companies in this area that were regarded as the leading tech companies globally.

One particular such company was Wang Laboratories, based on Lowell, Massachusetts, near Boston. An Wang, its founder, was Chinese. I met him a couple of times. He spoke very poor English and had emigrated from Taiwan. But there were numerous other companies like his, each highly innovative and with breakthrough products. Many of them were founded by foreigners. Most of them were in minicomputers, the forerunners to PCs. The computers they built in those days were just as transformational as PCs have been since then.

It might look from the outside that the center of tech startup activity has just shifted to the US West Coast from the East Coast. But this is far too simplistic. The Boston area is still home to some of the most advanced biotech companies in the world as well as artificial intelligence. Research at area universities, especially MIT, underpins much of

this activity, just as Stanford research underpins much of the tech activity in Silicon Valley.

But even this is not the whole story. There are major and highly successful tech clusters in the US in Seattle (based on companies such as Microsoft and Boeing), Raleigh-Durham (the “Research Triangle”) in North Carolina, and in Austin. Austin is growing very rapidly and is becoming far more important. It could yet become a real rival to the San Francisco Silicon Valley.

And even that isn’t all. There are new tech clusters rapidly emerging in Montana, Miami, New York City and Chicago. No one knows yet if they could become as big as the West Coast Silicon Valley. But it’s quite possible. So when you start to examine how the West Coast Silicon Valley in the US got started, you really have to look at how all of these started too.

That’s because you can’t view a Silicon Valley as an isolated phenomenon. It’s an end result of many things, including culture, laws, education and so on. A Silicon Valley only gets started in a fertile ecosystem. If the ecosystem is right, then many other Silicon Valleys will emerge too. They will compete against each other. In the 1980s the Route 128 Corridor was the top dog. Now it’s San Francisco. But it’s quite likely that at some stage San Francisco will lose its dominance, another Silicon Valley somewhere else will become the next top dog, and San Francisco will sink in the rankings, just as the Silicon Valley in Germany did in the 20th century.

At any particular time, any Silicon Valley is in a process of evolution. It might be going up or it might be coming down. Its universities might be getting better or they might be getting worse. The laws governing company formation, taxation, immigration and so on may change which then benefits some and disadvantages others.

You can’t take anything for granted. Knowledge, technology and innovation are constantly shifting. If you want to get a Silicon Valley started and to be successful, you need to think about these constantly shifting contours.

The Silicon Valley Wannabees

Every country wants its own Silicon Valley. Globally there are a number of pretenders to the claim of being the “Other” Silicon Valley. Let’s check out some of them.

London:

There are around 3,000 tech firms in east London, employing up to 50,000 people in the digital economy. In fact, the tech sector has played a crucial role leading London's economic recovery, accounting for 27 percent of new job creation. So London is a player although it's still not in the same league as Silicon Valley, partly due to its prohibitive cost levels for young workers.

One of its strengths is that the UK has labor laws that are far less restrictive than those in Europe, so many entrepreneurial Europeans go to the UK, and especially to London where it's easier to start up a new company and easier to raise money, and where it is close to a world class stock market.

A good try but not really a competitor to the US Silicon Valleys.

Oxford, UK:

The startups industry here is based around Oxford University and has about 12,000 people employed in the tech cluster. In general its startups are small and it doesn't have the Unicorn culture of the real Silicon Valley. Nevertheless, it has sophisticated startups with some great ideas and products. A long way to go before it's up there with the US big guys.

Dublin's "Silicon Docks:"

Dublin has been vigorously promoting itself as a Silicon Valley. All the big company names such as Google have set up there. However, the main reason they are locating there is the ultra-low tax rate of 12.5 percent. Sure, there are startups there too but it's not a patch on the real thing. Nice place to visit, great pubs, but basically a toy.

Stockholm:

In 2014 tech investment into Stockholm was around \$500 million, and out of the 22,000 tech companies based in the city, there are now six valued at more than \$1 billion. That's a great showing, and there have been some nice videogame companies started there. Still tiny though compared to the American Silicon Valleys. With the amount of investment still very low.

Moscow:

In 2009 Russia announced that it was setting up a world-class incubator for hi-tech IT companies in Skolkovo, a suburb of Moscow. So far this has been a total failure with

almost no companies setting up there. Not even a starter.

Bangalore:

Bangalore has almost as high a number of IT workers as the West Coast Silicon Valley. However, a large proportion of these are doing outsourcing work for foreign, especially US companies. In effect they are the back offices for many foreign companies. Although there are numerous startups there, they can't match those in any of the US tech hubs for their sophistication or sheer brazenness. Nor does it have the venture capital and financial infrastructure of the US tech clusters. Nevertheless, it is growing and could get to some sort of takeoff point in another 10 or 20 years.

Israel "Silicon Wadi:"

This dates from the 1960s and is located in the coastal areas of Tel Aviv up to Haifa and across to Jerusalem. This is the most successful of the foreign Silicon Valleys. Silicon Wadi has created numerous highly successful companies, many of whom used to and many still do go public in the US. The level of technology sophistication and the creativity of local startups rivals those of the US Silicon Valleys. It has a highly developed venture capital infrastructure.

So, as you can see, although there are some good tries, no other foreign Silicon Valley comes anywhere near the US tech hubs. For many reasons this looks like it will continue for some time for the reasons set out below.

What Drives Their Success and Failure?

As you can see, the main foreign competitor to the US Silicon Valleys is Silicon Wadi in Israel. What factors made this tech cluster so successful? Here are a few:

- A high level of immigration, mainly from Russia but also Jewish immigrants from other parts of the world; some of the best and creative tech and IT people left Russia, where they could do their work away from the hostility many of them were feeling from the local population.
- An American level of tolerance for failure and little stigma from bankruptcy
- Great universities, which are globally known and competitive, especially in IT and very advanced research.
- Minimal corruption so even companies with no money or access to officials can succeed.
- Good protection of intellectual property.

- A court system that can reliably be used to defend startups from being crushed by large corporations that want to prevent any competition to their own products.
- A vigorous startup community, at least in part driven by tech startups that spun out of the Israeli military.
- A strong relationship with the American Jewish community, especially in New York, that provides it with US relationships and access to capital.

You will notice that in other advanced countries such as those in Europe, there aren't any significant tech clusters on the scale of Silicon Valley. Why is that?

- Younger people and the unemployed have generous welfare systems, so when they are out of a job they have no incentive or need to start their own company.
- There is a usually huge stigma attached to failure so few people want to do a startup which might fail.
- Labor laws are very restrictive and you can't fire people if things go badly, which they often will in a startup, so most people don't want to risk starting a new company.
- It's difficult to start up a company in many countries, especially in places like Germany and France, due to extensive regulations and approval procedures needed and the complexity of tax laws governing new companies.
- In many countries, including Germany, there are complex regulations and laws governing certain professions which have the effect of totally stifling any new competitors emerging.
- Government is often so intrusive that many startups don't want government officials "interfering" with their company; that's why many European startups go to the UK.

So, despite the many wonderful environments in Europe, it still hasn't produced the raw level of startup creativity and attractiveness to founders who want to do radical and impossible things immediately and, if they fail, be allowed to start again with no stigma for having failed.

And why is it that most developing countries can't get a real Silicon Valley up and running despite the desire to?

- High levels of corruption, which deter startups from even trying.
- Poor or nonexistent protection of intellectual property; even where there are laws in place, they usually aren't implemented or only implemented if bribes are paid.
- Court systems: these can usually not be relied on to protect a company's proprietary

products and trademarks against large entrenched companies, many of which are government-owned, unless bribes are paid.

- They lack infrastructure such as roads, sewage, water, electricity and Internet.

So for developing countries, getting a real Silicon Valley is very difficult. Some countries are making great efforts, but it's going to take most of them many years before they even get to a take-off point.

How Do Silicon Valleys Start?

You know what they say: if I tell you, I gotta kill you. So here goes.

In 1990, Michael Porter published *The Competitive Advantage of Nations*, about how industries evolve and succeed globally. The book proposed that this occurs through the spontaneous formation, over time, of "clusters." According to Porter:

"A cluster is a geographic concentration of related companies, organizations, and institutions in a particular field that can be present in a region, state, or nation. Clusters arise because they raise a company's productivity, which is influenced by local assets and the presence of like firms, institutions, and infrastructure that surround it."

That's why we call a Silicon Valley a "tech cluster." It's just a growing group of people with similar products and services who hire people who possess the skills to produce them. One of the biggest advantages in being in a cluster is that workers can move between companies so owners can get their skills quite easily.

And even though it might seem that you can lose your workers easily, which is a disadvantage, you can also hire others easily. That means ideas, skills and techniques spread much more quickly in a cluster than otherwise. That means they quickly grow much more productive and competitive than other companies that are not in such a cluster.

You can see what clusters need. Owners need to be able to hire and fire employees whenever they want and quickly. If they doesn't have this, the cluster doesn't work properly. That's one reason why US clusters work and European ones don't; because European laws prevent startups from doing this.

But you also need a system of laws so that your employees and other companies can't steal your intellectual property. That's one big reason why tech clusters don't work in developing countries but they work so well in the US.

So, one reason for the success of US Silicon Valleys is that the requirements to make a tech cluster work are present in the US but not present in most other countries.

That's the economic explanation for Silicon Valleys. But there's also a social explanation. It comes from the famous author Richard Florida in his book *The Creative Class*, published in 2002. According to Florida, you need the creative class to build post-industrial cities, that is, cities in which you can get a Silicon Valley developing.

The creative class comprises two parts: one is the super-creative core. This includes people in science, engineering, education, computer programming, and research, with others from the arts, design, and media. They are innovators, creating new products and services. The second part is the creative professionals: These professionals are the classic knowledge-based workers and include those working in healthcare, business and finance, the legal sector, and education.

According to Florida, the super-creative core is attracted to special types of cities. These cities are:

- Socially open
- A lot of highly professional talent
- Value meritocracy, diversity and individuality
- A high level of social tolerance (a diverse community, which has a "live and let live" ethos)
- Technology (the technological infrastructure necessary to fuel an entrepreneurial culture)

In other words, while a cluster is important, you must also have a socially open city to be able to attract the highly innovative people who start amazing companies that break new bounds.

Innovators want a cool place to live in. Cool places are not usually associated with socially restrictive cities. Clearly San Francisco meets the bill. So does Boston, Austin and the other US tech clusters. Many other capital cities – London, Paris, Washington – don't fit because they are too expensive so startups can't afford them, or there's too many restrictive government regulations.

So you can see, we now have explanations of what leads to the creation of a Silicon Valley. This book is going to dive down into some of the things that the super-creative core and the creative professionals have to do to start these types of companies which lead to a self-sustaining tech cluster like the one in San Francisco.

The Organization of this Book

There are four main parts to this book. They are:

- Part 1 Leveraging High-Impact Founders
- Part 2 Building Transformative New Companies
- Part 3 Turning Employees into Entrepreneurs
- Part 4 Strategies for Atmospheric Valuations

You remember that we said that post-industrial cities have a super-creative core? Well, these are the founders, the innovators who are at the root of all those startups which drive the emergence of a successful tech cluster.

In Part 1 we devote a lot of time to them, as you will see. That's because it's where it all starts. No founder, no startup, no Silicon Valley. It's pretty simple. So you gotta get the crazy founders before anything happens.

Then you must support them with the right laws and environment so they want to come to the tech cluster. Because it's cool, fun and there's others like them there, so they feel like a part of the crowd. Then they can all share ideas and watch other great ideas emerge from the chaos, and then it can all start all over again with a new crop of founders. That's what the super-creators need.

Part 2 is how to build transformative companies. It's no good if you have a super-creative founder who creates a normal company, just as you are taught to do at business school or if you have worked in a normal company.

If you want to build something special, you have to act in a special way. Founders are special people anyway, so they need to know what special things to do to create the types of amazing companies that have regularly been emerging from the US Silicon Valleys. That way, you don't just have a super-creative core of people. You have a super-creative core of companies. Now you can really go out and change the world, just