

# Why Silicon Valley Works

*I wrote this for the FT, but it's behind a paywall. Since I wrote it, I feel like it's probably ok for me to post it here.*

The natural state of a start-up is to die; most start-ups require multiple miracles in their early days to escape this fate. But the density and breadth of the Silicon Valley network does sometimes let start-ups cheat death.

Silicon Valley works because there is such a high density of people working on start-ups and they are inclined to help each other. Other tech hubs have this as well but this is a case of Metcalfe's law – the utility of a network is proportional to the square of the number of nodes on the network. Silicon Valley has far more nodes in the network than anywhere else.

One of the biggest misconceptions about us is that you need to have pre-existing connections to get value from the network. Remarkably, you don't. Silicon Valley is a community of outsiders that have come together. If you build something good, people will help you. It's standard practice to ask people you've just met for help – and as long as you aren't annoying about it, they usually don't mind.

I run Y Combinator, an investment firm that gives a small amount of money and a lot of advice to a large number of start-ups. We do this in batches twice a year. Our network works because it has very strong connections. Founders are generally closer to their earliest investors and less close to their later investors. They are closest of all to the peers they were around when struggling to get their start. Therefore, YC founders are typically willing to do anything they can to help another YC founder. Sometimes this is being a customer or investing, sometimes it's referring a candidate, sometimes it's advice and investor connections. Often it's just moral support.

I often ask founders what surprised them most about going through YC, and a common answer is the degree to which YC is a “meta-company”. Yes, the approximately 700 YC companies are all totally independent legal entities – but the connection is so strong that alumni companies get significant benefits from each other. Most YC founders tell us they get more help from other YC founders than all other friends of the company, advisors and investors put together. Most will try a product from another YC company before deciding to use one outside the network.

This seems like the future to me – large groups of independent companies, loosely tied together.

One question I get asked a lot is how to replicate the success of Silicon Valley elsewhere. Most people realise that the world of start-ups benefits tremendously from network effects, and think it sounds impossible to replicate the necessary density anywhere else. But my experience suggests it’s probably doable with a few thousand people and a reasonable amount of capital.

I think you need two other things: an area where many ambitious people care most about start-ups and technology, and a focus on long-term compensation. In most cities, there’s one field that dominates the conversation – finance in New York, politics in DC, movies in LA and start-ups in San Francisco. If start-ups are second fiddle, it will be challenging to replicate the environment of Silicon Valley.

The focus in Silicon Valley on long-term compensation is also important. Nearly everyone wants to get rich but they’re willing to wait to do so. Conspicuous consumption isn’t that cool; not too many people drive Ferraris or talk about their vacation homes. Unlike other cities where people are mostly focused on cash compensation for this year, in Silicon Valley more

people talk about equity than salaries (assuming, of course, that they can afford the wildly-out-of-control housing costs, which is probably the biggest weakness here right now). A focus on making a lot of money in the long term at the expense of short-term opportunities is essential to building companies that have a huge impact – they take a long time.