

## Illogical Truths: The Paradoxes of Silicon Valley



By Gopi Rangan (INSEAD MBA '07D), INSEAD Adjunct Professor of Entrepreneurship, and James So (INSEAD MBA '91D), Investor and Advisor

**The Valley's most valuable product is the contrarian thinking that fuels its innovation culture.**

World-famous companies that have never turned a profit. A sprawling homeless epidemic cheek by jowl with some of the wealthiest zip codes in the world. Techies who are more likely to bond at Burning Man than at golf courses. Silicon Valley seems to make little sense from the outside.

We meet global business leaders who are eager to understand patterns in the innovation capital of the world. The opportunity is obviously huge. Silicon Valley start-ups have received the lion's share of US-based venture capital funding over the past 10 years. Yet, many visiting executives struggle to find a foothold because they can't seem to find the magic formula that makes Silicon Valley tick.

We are venture capitalists with decades of experience in Silicon Valley. After sharing our insider's view with hundreds of executives and business school students and watching them experience a mix of admiration and confusion, we feel inspired to explain how this place works. We want to share what we see as the most telling illogical truths about Silicon Valley.

### **Investing in good ideas that look like bad ideas**

Good ideas that look like good ideas are too obvious. Others are probably working on them already.

Take Airbnb, a classic good idea that seemed terrible at first pass.

How do you check guests' backgrounds? How do you insure hosts against theft or damage? How do you ensure cleanliness and safety for guests? How do you confirm the accuracy of ads?

All of these questions seemed like existential threats to an online marketplace for nightly sublets. There are also flat-out rules against subletting in many cities.

Silicon Valley loves to shrug off perfectly good reasons why an idea won't succeed.

Start-ups that find answers to these fundamental questions can shoot out of the gates and scale before others catch on. Good ideas that look like bad ideas often get a head start and end up with a dominant market share.

Go ahead, name a hotel that is a competitor in the sharing economy.

### **Passionate outsiders beat stodgy experts**

In other parts of the world, where job mobility might be low and industry barriers high, it is hard for outsiders to break into a market.

Harder yet: getting funding for a great idea with little background in the field.

In Silicon Valley, it's a different story. Oren Zeev, one of the most successful venture capitalists, says that **behind some of his most successful investments were founders who were outsiders to the industry.**

Outsiders are willing to challenge assumptions guarded by industry norms. Their naïveté about what cannot be done is an asset. Founders of Uber, Paypal and Google were outsiders, but these companies have revolutionised the transportation, payments and advertisement industries, respectively.

The new generation of payments companies like Square and Stripe were founded by outsiders, not by ex-employees of incumbent giants like Visa and Mastercard. The founders of Whatsapp built a messaging app for the first time in their lives after experiencing the limitations of the iPhone's text messaging capabilities.

Silicon Valley has endless examples of such outsiders thriving.

### **Altruism in the land of capitalism**

People in Silicon Valley have the habit of helping each other without expecting immediate reciprocity.

Yes, there's a surprising streak of altruism at the heart of American capitalism.

In the early days of Silicon Valley, Fairchild Semiconductor engineers would often help former colleagues turned competitors figure out problems. "We are all in it together" was the spirit of the day. Some others believed, "Good karma will come back."

Intel co-founder Bob Noyce mentored young Steve Jobs, the founder of Apple. "He tried to give me the lay of the land," [Jobs said](#).

Networks of angel investors, mentors and ex-entrepreneurs freely give their time and share their connections to help founders in the spirit of "paying it forward".

In other parts of the world, this open and generous mindset might exist to some extent, but in Silicon Valley it functions at another level entirely. Silicon Valley's rich and supportive ecosystem nurtures unproven entrepreneurs, encouraging them to pursue ambitious goals.

### **Double-edged sword**

Beware: Illogical truths come with exceptions.

Sometimes, bad ideas are indeed bad ideas.

You may not hear about them as often as you hear the success stories. Some ideas die after swallowing copious amounts of capital.

Color, a photo-sharing app, snapped out of existence before launch. Essential, a company building a new mobile phone, closed before releasing its first product. Google has a [graveyard](#) of projects like Orkut, Buzz, Inbox and Wave. Many more glorious failures are quickly forgotten as business moves on to the next big thing.

“Even turkeys can fly in a high wind,” said Eugene Kleiner, co-founder of the venture capital firm KPCB (now Kleiner Perkins).

Altruism is not a panacea. Helping hands cannot save “wantrepreneurs” who are keener to look like a business than to do the actual work. Even bad companies can look good in a strong economy.

Outsider-led thinking may not work all the time either.

Throughout the history of Silicon Valley, there have been examples of start-ups that took ideas too far when the fundamentals of business did not work. Webvan, Juicero and Washio are cases in point. Perhaps founders with industry experience could have prevented these failures.

### **Will Covid-19 change Silicon Valley forever?**

In the blink of an eye, a pandemic has swept around the world and upended our lives as we know it. The crisis has forced Silicon Valley to change just as the rest of the world is adapting to a new normal. Physical co-location has become less important and forces us to rethink the [future of work](#).

After a few months of hiatus, VCs are visiting manufacturing sites via video and investing in founders without meeting in person.

Workers are relocating. Democratising the talent pool will create a network effect by spreading Silicon Valley-like innovation in new geographies. The end result might be a redistribution of the Valley’s influence benefitting other regions while the former adjusts to a new reality.

The diffusion of Silicon Valley’s innovation culture will also make it less unique unless it learns from other ecosystems as well. At the same time, the Covid-induced “pause” has given the world an opportunity to weigh the momentous impact of Big Tech on democracy, privacy and freedom of

speech. Large technology companies are increasingly coming under scrutiny for being too powerful and not transparent enough for users and governments.

Still, we do not anticipate an end to Silicon Valley as we know it. Contrarian thinking is the beating heart of the Valley's success. We foresee the Valley undergoing a cultural transition that will make it much more accessible and accountable to all. We hope the changes will also usher in much needed diversity among entrepreneurs and VCs.

Indeed, all organisations aspiring to innovate could benefit from using these illogical truths. So next time you hear a novel idea that has every reason to fail, remember that you might be witnessing the birth of the next category-defining start-up. Maybe you will wonder if it is a good idea hiding as a bad one. You might not dismiss the outsider founders. Perhaps you will lend a helping hand. Now is also the best time to set foundational values aligning with sustainability, peace and justice.

Silicon Valley, as the global capital for innovation, cannot be ignored. To glean insights into the reasons for its success, business leaders must not only take a close look at contrarian thinking across the ecosystem, but also know that the new rules are not universally applicable.

What rules should rule-breaking contrarians follow? There is no magic formula. You choose.

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