

6-7-2014

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Recommended Citation

Adams, Stephen B. (2014) "THE INFLUENCE OF GEOPOLITICS ON ENTREPRENEURSHIP DURING THE EARLY DAYS OF SILICON VALLEY (INTERACTIVE PAPER)," *Frontiers of Entrepreneurship Research*: Vol. 34 : Iss. 14 , Article 15.
Available at: <https://digitalknowledge.babson.edu/fer/vol34/iss14/15>

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≈ INTERACTIVE PAPER ≈

**THE INFLUENCE OF GEOPOLITICS ON ENTREPRENEURSHIP
DURING THE EARLY DAYS OF SILICON VALLEY**

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Principal Topic

How did Silicon Valley come to be? From the beginning, relationships with the federal government played a major role in the region's entrepreneurial development. The region's first major high-tech firm, the Federal Telegraph Company, was intertwined with international geopolitical forces. Federal began in 1909 seeking private-sector business, but became a viable business only when the U.S. Navy became a major customer. The company survived by responding to the needs of America's nascent overseas empire, providing wireless communication (radio) equipment for naval bases at America's new possessions in the wake of the Spanish-American War.

The well-being of Federal Telegraph, which by the end of its first decade attained annual revenues of nearly \$2 million and employed more than 300 people, became as much a concern to officials in the U.S. Navy and State Department as it was to the company's employees and investors. I will show that while many other wireless start-ups fell by the wayside, one of the reasons Federal lasted three decades in the Valley was because of government involvement.

Thus began a pattern during the Valley's first half century in one industry after another: As America's role in the world expanded, companies in the Valley garnered government contracts for technology to help address geopolitical crises. The very first customer of the start-up instrument maker Hewlett-Packard may have been Disney in 1939, but it was the exigencies of World War II and associated federal contracts shortly thereafter that spurred the company's growth. The semiconductor industry also grew and prospered through government contracts. For the first few years after the establishment of Fairchild Semiconductor--which would later spin off Intel--in October 1957, the lion's share of the company's revenue was from defense contracts.

Results and Implications

The relationship with the public sector came at a crucial stage of development for many start-ups in the Valley. Government contracts helped overcome the "liability of newness": Half of all businesses fail during their first five years. In each case, the federal government played an incubator-type role as what Martin Kenney calls a "price insensitive lead customer," providing significant work (and resources) to these firms before their commercial work took off. Initial success in the region which assembled the "greatest legal collection of wealth in history" came only after key start-ups served as an industrial extension of government policy.

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