

August 28, 2008, 9:37 pm

## Does Silicon Valley Face an Innovation Crisis?

By [Claire Cain Miller](#)

### **UPDATED with clarification on Ms. Estrin's latest company**

Judy Estrin, who has built several Silicon Valley companies and was the chief technology officer of Cisco Systems, says Silicon Valley is in trouble. In a new [book](#), "Closing the Innovation Gap," which will be in bookstores Tuesday, she writes that the valley's problems are symptomatic of a crisis in innovation facing the country as a whole.

In an interview in her Menlo Park office Thursday, Ms. Estrin said that the United States is stifling innovation by failing to take risks in sectors from academia to government to venture capital. "I'm not generally an alarmist, but I am really, really concerned about this country," she said.

In her book, Ms. Estrin discusses everything from problems in elementary education to drug development, but her expertise is in information technology. Beginning in 1981, she co-founded three tech companies: Bridge Communications, Network Computing Devices and Precept Software. In 1998, Cisco acquired Precept and appointed her chief technology officer. She left in 2000 and co-founded Packet Design. She is now chief executive of JLABS.

Ms. Estrin traces Silicon Valley's troubles to the tech boom. She said that's when entrepreneurs and venture capitalists started focusing more on starting companies to turn around and sell them and less on building successful companies for the long term.

"Starting in 1998, there was such a shift in Silicon Valley toward chasing money and short-term returns," she said.

Part of the reason, she said, was that Cisco and other fast-growing big companies started acquiring start-ups with innovative technologies instead of developing new ideas internally. Entrepreneurs began founding companies with the goal of selling to a big tech company, and venture investors encouraged that.

Ms. Estrin acknowledged that innovative ideas still appear all over Silicon Valley. But, she said, the technologies at the root of new products like Apple's iPod or the Facebook social networking service were actually developed several decades ago. If entrepreneurs do not continue to develop groundbreaking technology, she said, the valley will be in dire straits in another decade. She compared the situation to a tree that appears to be growing well, but whose roots are rotting underground.

"In some ways, we have the problem that it looks like innovation is flourishing, but too much of it is short-term, incremental innovation," she said.

Since the tech bust, she said, venture investors have been too cautious. “What venture capitalists should do is start taking more risks again,” she said. “Taking risks and failing is one of the most critical aspects of innovation.”

The successes of her own career would not be possible in the current environment, she surmised. “The environment that was so rich and helped me start my career really is not there for my son,” she said.