

## The start-up eco-system of Israel<sup>1</sup>

Israel is a country with almost seven million inhabitants, a small internal market and no natural resources of value. Yet, Israel is today among the most important innovation hubs and entrepreneurship centers worldwide. It has the proportionally higher number of high-tech startups and venture capital funds in the world. In 2014, an amount of 3.4 billion dollars was invested in start-ups, while the IPOs of Israeli firms' on NASDAQ raised about 10 billion dollars.

How can this be explained?

Israel spends in research and development (R&D), both public and private, perhaps more than any other nation in the world (amounting to 4% of GDP). Innovation depends to a great extent on educational institutions, such as the Technion Institute of Technology in Haifa and the Weizmann Institute of Science near Tel Aviv. These institutions, with scientists and researchers of global reach, assure the creation and diffusion of knowledge and expertise. Innovation is also supported by the army. Part of the defense spending (amounting to 5.69% of GDP) is used for R&D. This results in the development of cutting-edge technologies, which are used initially for the defense and later on for the development of commercial applications, ultimately enhancing entrepreneurship.

In the 1990s, the government took a series of measures to strengthen the high-tech sector. It provided grants to venture capital funds and universities, and supported business incubators and technology transfer programs. In Israel, there are more than 300 R&D centers of multinational companies, such as those of Microsoft, J&J, Google, Dropbox and others, with more than 50,000 employees. These R&D centers serve as business incubators to technological start-ups providing them with state-of-the art know-how.

The culture in Israel tolerates risk-taking and faces failure as an antecedent to the success of a new start. Although it seems like a paradox, it has been argued that even the military service (which is long and compulsory) assists in creating entrepreneurial mindsets. Improvisation is encouraged even if it would entail non-compliance with certain rules.

Brain drain creates a problem for Israel. Numerous scientists leave the country for other countries. They maintain, however, strong and close relationships with their peers in Israel, creating a channel of knowledge exchange and a means of interconnection with overseas markets. Support from diaspora (large communities of which are located in the USA) undoubtedly facilitates also the access of Israeli entrepreneurs to international investors and larger markets.

An additional explanation for the entrepreneurial dynamism of Israel can be found in the development of innovation clusters. Within these clusters initial successes create the conditions for subsequent successes. High concentration of scientists and technological firms in a place facilitates collaborations, and attracts venture capital investors and more talent, thus creating the conditions for the formation of new ventures.

Questions: a) *Discuss the entrepreneurial ecosystem of Israel using the entrepreneurial ecosystem model of Babson College.* b) *Identify three weaknesses of the Greek entrepreneurial ecosystem when compared with that of Israel and suggest realistic policies in order to eliminate them.*

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<sup>1</sup> Sources: α) Bussgang J. and Stern O. (2015). How Israeli start-ups can scale? *Harvard Business Review*, September 10, β) TO BHMA, The entrepreneurial ecosystem –The miracle of Israel in a book, 04/12/2015 γ) FORTUNE Greece.com, Do not hesitate to fail!, 02/04/2015.