

# The secrets behind Israel's rise as a 'Startup Nation'

 By [Lauren Hartzenberg](#)

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TEL AVIV, Israel - For but a sliver of land in the Middle East, with a population below 9 million, you'd never guess that Israel has the second largest number of companies on the Nasdaq, after China. It's also surprising to learn that it harbours the highest density of startups per capita in the world, leading to it now running with the moniker of 'Startup Nation'.



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Technological innovation has become an important part of 'brand Israel', and this will likely continue considering that approximately 4.3% of the country's GDP is invested in research and development (R&D), far exceeding that of most other nations.

The priority is high-tech, with key clusters focused on consumer internet, gaming, adtech, security, mobile tech and apps. Startup exits in 2017 amounted to a cool \$23 billion, with Intel's prolific \$15.3 billion acquisition of Israeli autonomous driving technology startup Mobileye claiming the lion's share.

But how did this small nation, sitting in a rather unstable geopolitical environment, become a hotbed of startup innovation? On a brief but busy visit to the country as part of a global delegation of journalists, I discovered some of the answers.

## Presence of multinationals

Name a technology multinational, and they probably have a presence in Israel. Microsoft, Google, Apple, Siemens, Huawei, Sony, Intel, and more than 300 others have either established R&D centres or recruitment operations in the country, or both.

The Israeli government encourages this by offering incentives to these companies to build a local presence. In one example explained to me by Jerusalem Venture Partners' (JVP) Uri Adoni, multinationals that open their centres in the peripheral area (outside of Tel Aviv) can retrieve up to 40% of their employees' salaries for the first two years.

Multinationals form a key part of the startup ecosystem in Israel and they're included in the dialogue that occurs between startups and VCs. This many times results in co-investment or acquisitions, and assists in developing market opportunities for the solutions being built.

## **Military service**

Israelis credit much of their success in business to their mandatory military service, which both men and women undertake between 18 and 21 years old.

From a technology perspective, there are several exceptional intelligence units within the military that create tech or cyber experts. The intense geopolitical conflicts in the Middle East elicited advanced defence-related research and development efforts, which later became the basis for many non-defence innovations in the areas of healthcare, telecommunications, security, transportation, and more.

In terms of general skills gained, military service teaches Israelis to think on their feet and improvise in order to complete a mission. How they react to unexpected changes is considered more important than purely executing orders. This practice of problem-solving and the tenacious attitude it develops is a powerful tool for entrepreneurs and startups entering the ecosystem.

## **Academia**

As is the case with multinationals, tertiary institutions too are a valuable element of the ecosystem. Israel has eight highly-ranked universities, and their R&D hubs are great incubation centres to drive innovation.

Much of the research and development that goes into new technologies occurs in academic and research institutions and laboratories. These technologies are then transferred from the academic institutions to the companies that will develop marketable applications. In Israel, the middlemen for this process are Tech Transfer Organisations (TTOs), and they play a critical role in converting new science into economic growth.

Furthermore, many Israeli universities and colleges are starting to build their own centres for excellence focusing on entrepreneurial studies. Technion, a science and technology research university, actually makes it mandatory for every student to take a Minor in Entrepreneurship, encouraging the creation of student-led businesses.

## **Venture capital community**

The Israeli government initiated the venture capital industry back in 1993 by creating the Yozma fund, and offering attractive tax incentives to foreign venture-capital investments in Israel. Today, Israel has about 70 active venture capital funds, of which 14 are international VCs with Israeli offices.

One of the most successful Israeli VC firms is Jerusalem Venture Partners, ranked by Preqin as one of the top 10 consistently performing VC funds worldwide. It's invested in over 120 companies and raised over \$1 billion across nine funds since it was established in 1993.

What's perhaps most important to note about Israel's VC landscape is the multistage investment approach, with VCs funding all stages of innovation from seed round through to late stage growth.

## Global mindset

One of the qualities that sets Israeli startups apart is their sense of urgency to build and expand in rapid succession.

Owing to the country's small size, there isn't much of a local market to speak of. Israelis have turned this into an advantage by creating solutions from the get-go with a global market in mind. Their startups are essentially built to be international players because this global mindset is part of their DNA.



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## Healthy attitude towards failure

It's said that for every Israeli family, there is at least one entrepreneur forming part of it. So with entrepreneurship being a normalised – even celebrated – part of the culture, so too is failure.

With roughly 1,000 new startups born in the country every year, many of them won't succeed. But in Israel, failure is an event, not a person, and entrepreneurs rarely hesitate to start another company and run with a new idea when an old one hits a dead end.

It helps that everybody, be it in business or family circles, supports this culture of entrepreneurship and the inevitable risks of failure associated with it.

## Chutzpah

Ask Israelis to name a personality trait key to their success, and you'll probably hear the word 'chutzpah' cited more than a few times. It's this chutzpah – the quality of extreme self-confidence and audacity – that leads to entrepreneurs with a can-do attitude who think big and challenge the status quo.

## Challenge authority

Unlike many business communities around the world, Israelis are not awfully obsessed with hierarchy within an organisation, and it's commonplace to have a junior employee engage in debate with a senior during the decision-making process. In fact, challenging management is encouraged.

There's somewhat of an understanding that good ideas can come from anybody, and the nurturing of this philosophy helps create a creative working environment in which innovation can thrive.

In conclusion, after four busy days in Tel Aviv and surrounds, I've realised that the strong combined presence of multinationals, startups and VCs is not in itself what gives Israel's tech scene the edge. It's the fact that they're constantly engaging with each other.

The openness with which Israelis collaborate and exchange ideas, and the inventive mentality of the people are what's powering its thriving startup ecosystem.

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