

Start-up nation packs its bags

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Photo by: BRIAN SNYDER / REUTERS

When US President Barack Obama addresses the newly formed 19th Knesset during his March visit to Jerusalem, I strongly doubt he will say the following: "About half of all start-ups in Silicon Valley are launched by foreigners, with Israelis leading the way in proportion to Israel's population. So thanks, Israel! America benefits when 'Start-up Nation' packs its bags – and unpacks them in Silicon Valley or Boston. You bring us ideas, technology, energy, jobs and great new businesses! Keep 'em coming!" But if he were to make such a statement, it would all be true. Despite the growing difficulty involved in acquiring a US visa (America is making it increasingly tough for dynamic entrepreneurs to emigrate), many Israelis are choosing to launch businesses in the US rather than at home.

According to IVC Research Center, which analyzes and monitors Israel's high-tech industry, 466 start-ups were launched in 2012, down 32 percent from 683 in 2011. Part of this decline may be due to the fact that would-be entrepreneurs are being discouraged by the growing difficulty in raising venture capital (VC) at home.

Last year, some \$1.37 billion, mostly from foreign VC funds, were invested in Israeli start-ups – down 22 percent from the \$1.76 billion in 2011. Of the \$1.37 billion, only \$516 million came from Israeli VC funds, a 19 percent decline in relation to the \$638 million invested in 2011; and of the \$516 million, only 38 percent, or \$195 million, came in the form of initial investments in start-ups, with the remainder going into existing companies. To put it plainly, the VC well has run dry.

"Then and Now: America's New Immigrant Entrepreneurs," a study funded by the US-based Kauffmann Foundation, surveyed 1,882 engineering and technology companies founded in the US during the period 2006-2012, revealing that one in every four of the companies had at least one key founder who was an immigrant. These companies "generated \$63 billion in revenue and employed 560,000 workers in 2012," the study noted.

The Kauffmann Foundation report also showed that immigrants from India had accounted for one-third of the immigrant-founded companies, with just 3 percent of the businesses started by Israelis. Nevertheless, in relation to the size of its population, Israel led even India. Israeli start-ups in the US, the study showed, specialize in semiconductors, with one in every 10 immigrant-founded semiconductor start-ups during the period under review.

were launched by Israelis.

The Kauffmann Foundation study sounds an alarm bell for America. “The period of unprecedented expansion of immigrant-led entrepreneurship that characterized the 1980s and 1990s has come to a close,” it notes. Despite this, the numbers “underscore the continuing importance of high-skilled immigrants to the [American] national economy,” the report concludes.

Nobody knows for sure how many Israelis are in Silicon Valley, with one conservative estimate putting the figure at some 40,000.

But the real Camelot for Israeli start-ups in the US is not Silicon Valley but Greater Boston and Route 128: One in every six immigrant-founded start-ups launched in the Greater Boston area between 2006 and 2012 was Israeli.

Why do some Israeli entrepreneurs choose America over Israel? Dell Inc. co-founder Michael Dell once said, “Ideas are a commodity, execution of them is not” – and executing an idea is simply easier in America.

I spoke with Israeli entrepreneurs from the Greater Boston area; they listed seven reasons why Boston is an attractive location for Israeli start-ups: Being closer to your clients, physically and culturally; access to capital [there is no shortage of capital in the US for good ideas and good entrepreneurs]; access to top talent; a vibrant innovation community; one degree of separation from the leaders of technology, marketing and political and academic communities; a place many enjoy raising a family; not too big and not too far from Israel [closer than California].”

I taught at Boston’s Massachusetts Institute of Technology for 20 summers and can confirm what they say. Boston’s Jewish community is large, cohesive and well-organized.

Reform, Orthodox and Conservative groups cooperate smoothly in its Combined Jewish Philanthropies and the city is devoid of the poisonous rancor dividing these groups in Israel, rancor stemming from the lethal mixture of religion and politics. It is more than ironic that living a Jewish life may be easier for Israeli entrepreneurs in Boston than in Israel itself.

Reid Hoffman, the founder of LinkedIn, a widely used business-driven social network, once defined entrepreneurship as a process in which “you jump off a cliff and you assemble an airplane on the way down.” Assembling that airplane is simply easier and faster for Israelis in the US than at home. For this reason, many Israeli start-ups choose to incorporate in the state of Delaware – because it is fast and cheap.

During a trip to Silicon Valley in 2006, the delegation of Israeli high-tech managers I headed had the opportunity to meet with Dan Maydan, the legendary Israeli chief at Applied Materials, a global market-leading American semiconductor equipment company, where he served as president for nearly a decade, from December 1993 to April 2003. In response to a question on how to bring Israeli start-ups home, Maydan, who holds two degrees from the Technion-Israel Institute of Technology, noted that the goal should rather be “to leverage their knowledge for Israel’s benefit rather than to bring them home.” The magnetic pull of the Valley, he said, was simply too strong.

Maydan told us that Israeli start-ups need to learn two key things, first and foremost, what it means to be a market leader. “You need a 60 percent market share for this,” he said, adding that this was far easier to attain when based in America, close to the market itself. Second, he said, “you need to learn how to listen to customers in ways that are different to how Israeli companies listen to them today.” Listening to customers, too, he added, was far easier when start-ups were in the US, closer to them.

All start-ups must think globally – from day one; but what is a truly global company? “It is not just one that sells everywhere,” Maydan cautioned. “Rather, it is one that has contributors [technology, management, sales] from every place in the world in which it operates.”

Here again, being truly global seems easier when based in the US as opposed to Israel.

While in Silicon Valley, we also visited Zoran, an Israeli start-up launched in 1983 that is headquartered in California, but has R&D operations in Israel. Zoran makes innovative chips for a variety of devices. Many other Israeli firms in the Valley have similar dual deployments. Zoran was acquired by CSR in 2011.

Walt Disney created Disneyland in only one year, from groundbreaking to opening the doors to the public. “The way to get started is quit talking and start doing,” Disney said at the time.

Israeli entrepreneurs can sometimes spend months and even years talking and pitching to VC funds – and end up facing humiliating rejection. In the classes I teach, I urge them to emulate Disney and to “bootstrap” – launch their start-up with only minimal funds, mainly their own. But many technologydriven start-ups need substantial funds for R&D, and increasing numbers of them are finding their way abroad, to the US.

I hope the new coalition government will somehow find ways to keep 'Start-up Nation' from heading en masse to the airport.

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