

## What U.S. Startups Can Learn from Israel “The Startup Nation”

In the NY Times best-selling book Start-Up Nation, authors Dan Senor and Saul Singer address the “trillion-dollar” startup question:

“How is it that Israel – a country of 7.1 million, only 60 years old<sup>1</sup>, surrounded by enemies, in a constant state of war since its founding, with no natural resources – produces more startup companies than large, peaceful and stable nations like Japan, China, India, Korea, Canada, and the U.K.? How is it that Israel has, per person, attracted over twice as much venture capital investment as the U.S. and 30 times more than Europe?”

And furthermore, why did the third richest man in the world, Warren Buffet, make his first ever purchase outside the United States in Israel? In 2006, Berkshire Hathaway spent \$4 billion to purchase 80% of the Israeli company Iscar (a global producer of metal working tools). Buffett has since praised his own investment and promoted investment in Israel.

“If you are looking for brains - stop in Israel, there is no need to go further... In my opinion, Israel as a state has proven that it has an exceptional amount of brains and energy and in my eyes it works,” Buffett said in a 2010 video interview at the Ministry of Trade, Industry and Labor social economic conference at Airport City.

### Delving Into the Israeli Mindset

America’s most successful investor identified two critical attributes present in Israel before making his \$4 billion investment: “an exceptional amount of brains and energy.” So let’s take a closer look at these two qualities – brains and energy -- to see what we can learn.

Here’s an excerpt from Chapter 4 of Start-Up Nation. It sheds light on the factors that help form the Israeli mindset.

At eighteen, Israelis go into the army for a minimum of two to three years. If they don’t reenlist, they typically enroll at a university. “There’s a massive percentage of Israelis who go to university out of the army compared to anywhere else in the world,” said Shainberg (VP for technology and innovation at British Telecom).

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<sup>1</sup> As of July 2012 Israel’s population is 7.7 million and they are 64 years old.

In fact, according to the Organization for Economic Co-operation and Development, 45 percent of Israelis are university-educated, which is among the highest percentages in the world. And according to a recent IMD World Competitiveness Yearbook, Israel was ranked second among sixty developed nations on the criterion of whether “university education meets the needs of a competitive economy.”

By the time Israeli students finish college, they’re in their mid-twenties; some already have graduate degrees, and a large number are married. “All this changes the mental ability of the individual,” Shainberg reasoned. “They’re much more mature; they’ve got more life experience. Innovation is all about finding ideas.”

Innovation often depends on having a different perspective. Perspective comes from experience. Real experience also typically comes with age or maturity. But in Israel, you get experience, perspective, and maturity at a younger age, because the society jams so many transformative experiences into Israelis when they’re barely out of high school. By the time they get to college, their heads are in a different place than those of their American counterparts.

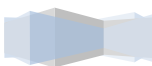
As you can see, the Israeli culture combines both academic education with real world experiences through mandatory service in the army. But what if you’re not an 18-year-old Israeli preparing for his three year (or two years if you’re a woman) stint in the IDF? Is there still a lesson here for you?

Yes.

That’s because young Israeli’s receive more than just a military education while serving. Yes, they learn how to be decisive, how to train their mind and how to be disciplined, all of which are important in the business world. But there’s something even more important they learn: **how to take responsibility.**

Colonel John Lowry, an American marine infantry officer shares his perspective in the book.

“The military gets you at a young age and teaches you that when you are in charge of something, you are responsible for everything that happens. . . and everything that does not happen. The phrase ‘It was not my fault’ does not exist in the military culture. No college experience disciplines you to think like that. . . with high stakes and intense pressure,” says Lowry, a graduate of Princeton. “When you are under that kind of pressure, at that age, it forces you to think three or four chess moves ahead. . . with everything you do. . . on the battlefield. . . and in business.”



### Chutzpah – Got the Guts?

What exactly is “*Chutzpah*”? According to Dan Senor, “Chutzpah is gall, brazen nerve, effrontery, incredible ‘guts,’ presumption, plus arrogance such as no other word and no other language can do justice to.”

The authors offer a few examples of what *chutzpah* looks like in the real world. Once such example is found in an interview they did with PayPal president Scott Thompson. Thompson shares his experience of when PayPal bought Israeli startup, Fraud Sciences in 2007 for \$169 million. Listen to Thompson describe his initial meeting with the Israeli Fraud Science team:

“Every question was penetrating. I actually started to get nervous up there. I’d never before heard so many unconventional observations — one after the other. Junior employees had no inhibition about challenging how we had been doing things for years. I’d never seen this kind of completely unvarnished, unintimidated, and undistracted attitude. I found myself thinking, ‘who works for whom here? Did we just buy Fraud Sciences, or did they buy us?’”

Could this be the “energy” that Buffet witnessed? When you combine intelligence with guts you have a people who are capable of turning ideas into reality -- just what the startup world needs.

As the authors contend, Israel is not just a country but a comprehensive state of mind. Whereas Americans emphasize correctness and extensive preparation, Israelis put *chutzpah* first. "When an Israeli entrepreneur has a business idea, he will start it that week," is how one analyst put it.

### Lessons for Us

I see two important lessons we can learn from Israel. First, is the importance of taking responsibility for what happens and for what does not happen in our businesses. In order to succeed we must continually operate from a proactive mindset; strategically thinking three or four chess moves ahead.

But we can’t stop there. Eventually we need to turn those strategic thoughts into realities. And *chutzpah* is the catalyst for that to happen. Today the economy rewards individuals who have the courage to challenge the status quo and think outside the box. As Winston Churchill said, “*Courage is rightly esteemed the first of human qualities ... because it is the quality that guarantees all others.*”

[Word Count: 1,111]

