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The Role of Israeli Government Policies in Nurturing a Startup
Culture
Analyzing the initiatives and policies implemented by the Israeli
government to foster a thriving startup ecosystem

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Abstract

This thesis explores the role of Israeli government policies in nurturing a thriving startup ecosystem. It investigates the impact of financial incentives, regulatory frameworks, infrastructure development, and cultural factors on the emergence and sustainability of startups in Israel. Drawing on an **exploratory case study design combined with expert interviews**, the study examines both policy mechanisms and stakeholder perceptions to identify key drivers of entrepreneurial success. The findings highlight that while early-stage support and innovation incentives are strong, significant challenges persist in scaling ventures, streamlining regulatory processes, and ensuring equitable access to resources. Based on the empirical evidence, the thesis offers policy recommendations to enhance Israel's startup ecosystem and provides insights transferable to other emerging innovation hubs.

Keywords: Startups, Innovation, Israeli Government Policies, Regulatory Frameworks, Venture Capital

Abstrakt

Diese Masterarbeit untersucht die Rolle der israelischen Regierungspolitik bei der Förderung eines florierenden Start-up-Ökosystems. Analysiert wird der Einfluss von finanziellen Anreizen, regulatorischen Rahmenbedingungen, dem Ausbau von Infrastruktur sowie kulturellen Faktoren auf die Entstehung und Nachhaltigkeit von Start-ups in Israel. Auf Basis eines **explorativen Fallstudiendesigns in Kombination mit Experteninterviews** werden sowohl politische Maßnahmen als auch Einschätzungen zentraler Akteure untersucht, um die wesentlichen Erfolgsfaktoren unternehmerischer Dynamik zu identifizieren. Die Ergebnisse zeigen, dass Israel über ein starkes Unterstützungsangebot in der Frühphase verfügt, jedoch Herausforderungen beim Skalieren von Unternehmen, bei der Effizienz regulatorischer Prozesse und beim gleichberechtigten Zugang zu Ressourcen bestehen. Auf Grundlage der empirischen Befunde werden politische Handlungsempfehlungen formuliert, die nicht nur für Israel, sondern auch für andere aufstrebende Innovationsstandorte von Relevanz sind.

Stichwörter: Startups, Innovation, Israelische Regierungspolitik, Regulatorische Rahmenbedingungen, Venture Capital

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Abbreviations

OCS - Office of the Chief Scientist

R&D - Research and Development

IIA - Israel Innovation Authority

STEM - Science, Technology, Engineering, and Mathematics

GDP - Gross Domestic Product

JTC - Jurong Town Corporation (related to Singapore's JTC LaunchPad)

SG - Singapore

OECD - Organisation for Economic Co-operation and Development

1. Introduction

1.1 Background and Context

The Role of Startup Ecosystems in Innovation and Economic Growth

Startup ecosystems have emerged as critical engines of technological advancement, economic diversification, and job creation (Audretsch & Belitski, 2017). A well-functioning ecosystem consists of multiple interdependent components, including entrepreneurs, venture capitalists, research institutions, government policies, and market access (Mason & Brown, 2014). The success of leading startup hubs such as Silicon Valley, Berlin, and Singapore underscores the importance of favorable regulatory frameworks, financial accessibility, and institutional support mechanisms (Isenberg, 2010).

Among the world's leading startup ecosystems, three distinct models have shaped entrepreneurial landscapes:

1. **Market-Driven Model (Silicon Valley, USA):** Characterized by private-sector-led venture capital, world-class universities (Stanford, Berkeley), and minimal government intervention, Silicon Valley remains the benchmark for startup ecosystems (Saxenian, 1994).
2. **State-Led Model (Singapore):** Singapore's government plays an active role in funding, incubating, and attracting startups, with highly structured innovation policies such as the Startup SG Equity Program (Wong et al., 2004).
3. **Hybrid Model (Berlin, Germany):** Berlin's ecosystem benefits from EU-backed grants and public-sector funding, though it remains less developed in late-stage venture capital and scale-up potential (Fritsch, 2014).

Despite these varied approaches, a key challenge across ecosystems is achieving a sustainable balance between government intervention and private-sector leadership (Feldman, 2014). In this context, Israel's startup ecosystem represents a unique case study that blends both state-driven initiatives and private investment strategies (Senor & Singer, 2009).

Israel's emergence as a leading global startup hub is frequently linked to deliberate government policies, technological innovation stemming from military initiatives, and close cooperation

between academia and industry (Trajtenberg, 2002). Dubbed the “Startup Nation,” Israel has the highest number of startups per capita and ranks among the top five globally in venture capital investment per GDP (OECD, 2018, WIPO, 2023). Unlike Silicon Valley, where private investment plays a dominant role, Israel’s government has been a primary architect of its startup ecosystem, shaping policies that have facilitated capital formation, R&D commercialization, and global expansion (Breznitz, 2007).

Several key factors contribute to Israel’s success:

1. Strategic Government Policies: Unlike the market-driven model of Silicon Valley, Israel’s startup ecosystem was actively shaped by state intervention, particularly through the Yozma Initiative (1993), which established the country’s venture capital industry (Avnimelech & Teubal, 2006).
2. Military Influence on Technological Development: The Israeli Defense Forces (IDF), particularly Unit 8200, serve as an incubator for deep-tech talent, producing highly skilled entrepreneurs in cybersecurity, AI, and data analytics (Shapira & Youtie, 2016).
3. University-Industry Collaboration: Institutions like the Technion and the Weizmann Institute play a pivotal role in translating academic research into commercial applications, thereby strengthening the link between universities and industry (Schwab, 2011).
4. International Market Orientation: Due to Israel’s small domestic market, startups scale globally from inception, often targeting partnerships with U.S. venture capital firms, European markets, and multinational tech companies (OECD, 2020).

While government-led interventions have played a fundamental role in shaping Israel’s startup ecosystem, there are growing concerns regarding the sustainability and inclusivity of this model. The extent to which these policies have addressed systemic gaps in funding, minority entrepreneurship, and industry diversification remains a key area of inquiry.

1.2 Problem Statement

Gaps in Existing Research on Government-Led Startup Ecosystems

Despite the well-documented success of Silicon Valley's private-sector-driven model, there remains a limited body of research examining the long-term effectiveness of government-led startup policies (Isenberg, 2010; Feldman & Kogler, 2010). While previous studies have explored individual policy measures—such as government-backed venture capital (Avnimelech & Teubal, 2006), military-driven talent development (Shapira & Youtie, 2016), and R&D grants (Trajtenberg, 2002)—there is a lack of comprehensive, integrated evaluations of how these policies collectively shape an entrepreneurial ecosystem over time.

Three major gaps persist in the current literature:

1. **Limited Holistic Analyses of Israel's Startup Policies:** Existing research on Israel's entrepreneurial landscape has largely focused on specific interventions (e.g., the Yozma Initiative or cybersecurity startups) but has not sufficiently examined how multiple government policies interact to create long-term ecosystem resilience (Breznitz & Ornston, 2013).
2. **Inclusivity Challenges in Israel's Startup Ecosystem:** While Israel excels in high-tech sectors such as AI, cybersecurity, and medical technology, non-tech startups, social enterprises, and minority entrepreneurs (e.g., Arab-Israelis and ultra-Orthodox entrepreneurs) receive disproportionately lower levels of funding and institutional support (OECD, 2022).
3. **Overconcentration in Specific Sectors and Geographic Regions:** The majority of Israeli R&D funding supports deep-tech and high-growth industries, leading to an overreliance on venture-backed innovation while neglecting broader economic diversification (Trajtenberg, 2002). Additionally, Tel Aviv remains the dominant startup hub, with fewer government initiatives supporting entrepreneurship in peripheral regions such as the Negev and Galilee (Feldman, 2014).

The Need for a Comprehensive Evaluation of Israel's Startup Policies

Given these gaps, this study seeks to:

1. Conduct an integrated analysis of Israeli government policies, evaluating their combined impact on venture capital formation, startup survival, and economic diversification (Mowery & Sampat, 2005).
2. Examine inclusivity gaps in Israel's startup ecosystem, focusing on underrepresented founders, non-tech startups, and geographic imbalances (OECD, 2022).
3. Identify transferable lessons from Israel's experience, providing policy recommendations for other emerging startup ecosystems (Wonglimpiyarat, 2016).

This study seeks to offer fresh perspectives on the government's influence within entrepreneurial ecosystems, emphasizing both the benefits and constraints of innovation policies driven by the state.

1.3 Defining the Scope of Government Intervention in Startup Ecosystems

The role of government intervention in fostering entrepreneurship has been widely debated, particularly in the context of high-growth technology ecosystems (Isenberg, 2010). While some scholars argue that startup success is primarily driven by private-sector investment and market forces (Saxenian, 1994), others emphasize the importance of strategic government intervention in shaping early-stage innovation and venture capital formation (Breznitz & Ornston, 2013).

Israel presents a unique hybrid model, where government policies have historically played a dominant role in venture capital development, R&D funding, and international market integration (Avnimelech & Teubal, 2008). However, despite the success of state-led initiatives such as the Yozma Program (1993), questions remain about the sustainability of government-backed startup models and the extent to which these interventions have addressed systemic gaps in inclusivity and sectoral diversification (OECD, 2022).

This study aims to conduct a comprehensive assessment of Israel's government-led startup policies, focusing on their historical development, effectiveness, inclusivity, and global applicability. By analyzing the long-term impact of state intervention and evaluating the challenges associated with funding allocation, regional disparities, and diversity in entrepreneurship, this research provides insights into policy best practices for fostering sustainable innovation-driven economies.

1.3.2 Refined Core Research Objectives

1. Assessing the Long-Term Impact of Government Intervention on Israel's Venture Capital Industry

Israel's venture capital landscape has been significantly influenced by government involvement. This research explores:

- The Yozma Initiative's role in catalyzing venture capital (VC) investment and its transition from publicly backed funding to private-sector leadership (Avnimelech & Teubal, 2006).
- Whether state-backed VC initiatives have successfully stimulated private investment growth or led to dependency on government support.
- A comparative analysis of Israel's government-driven model against market-driven ecosystems like Silicon Valley and state-led ecosystems like Singapore to determine which policy structures foster long-term, sustainable startup growth (Wonglimpiyarat, 2016).

2. Evaluating the Effectiveness of Government Funding Mechanisms for Startup Growth

Israel's direct funding mechanisms have been instrumental in fostering a dynamic startup ecosystem, but their efficiency and scalability remain subjects of debate. This research evaluates:

- The efficacy of Israel Innovation Authority (IIA) grants in supporting early-stage ventures.
- The role of public-private partnerships (PPPs) in technology incubators and their contribution to startup success.
- The impact of tax incentives for multinational corporations (MNCs) in attracting foreign direct investment (FDI) and R&D centers (Schwartz & Bar-El, 2015).
- Whether these funding structures effectively support startup scaling and market competitiveness beyond the early stages.

3. Investigating Regional and Sectoral Disparities in Israel's Startup Ecosystem

Despite Tel Aviv's status as a global startup hub, regional imbalances persist, with significant gaps in funding and infrastructure support for startups outside of Israel's central business districts. This study explores:

- The degree to which government policies have influenced regional imbalances—especially in areas like the Negev and Galilee, where startup funding continues to lag behind—remains a critical issue (Feldman, 2014).
- Whether government incentives have led to an overconcentration of investments in deep-tech sectors, such as cybersecurity, artificial intelligence (AI), and biotech, at the expense of creative industries, social enterprises, and non-tech entrepreneurship (OECD, 2022).

4. Examining the Inclusivity of Government Policies for Underrepresented Founders

Although Israel is widely recognized as a leading innovation hub, its startup ecosystem remains unequal in terms of access to funding and support. This study evaluates:

- The representation of Arab-Israeli, ultra-Orthodox, and female entrepreneurs in venture-backed startups and the extent to which they receive government support.
- The structural barriers limiting access to venture capital and government grants for underrepresented founders, given that less than 1% of total VC funding is allocated to these groups (OECD, 2022).
- Whether current government interventions effectively address these diversity gaps or if alternative policy measures are required to foster a more inclusive entrepreneurial ecosystem.

5. Identifying Transferable Policy Lessons for Emerging Startup Ecosystems

As countries worldwide seek to replicate Israel's success, it is crucial to assess which aspects of its government-led model can be adapted to other national and regional contexts. This research will:

- Identify the policy instruments that have been most effective in fostering long-term innovation-driven growth (Breznitz & Ornston, 2013).
- Examine the limitations and unintended consequences of Israel's government-driven approach, such as over-reliance on public funding and sectoral imbalances.
- Provide policy recommendations for emerging economies, balancing state-led interventions with private-sector incentives to create self-sustaining startup ecosystems.

By pursuing these research objectives, the study seeks to enrich the ongoing discussion on governmental roles within entrepreneurial ecosystems and provide actionable, data-based insights for policymakers in both advanced and developing economies.

1.4 Research Questions

At the core of this study are the research questions, which shape its direction and analytical focus on the influence of governmental policies in advancing Israel's startup landscape. These questions aim to uncover the specific ways in which public initiatives have stimulated innovation, entrepreneurial activity, and economic development. Through their investigation, the study intends to produce meaningful insights that can support evidence-based policymaking in other regions aiming to build thriving startup ecosystems.

1. What are the key government policies and initiatives that have contributed to the development of Israel's startup ecosystem?

Israel's transformation into a global startup hub is often attributed to a series of strategic government policies and initiatives. Identifying these key policies is essential to understand the framework that has supported the ecosystem's growth. This research will delve into several critical areas:

1. Venture Capital Development:

The Yozma Program is a cornerstone of Israel's startup success. Launched in the early 1990s, it provided government-backed venture capital funds, which significantly boosted private investment in startups. The program's design and impact on the venture capital landscape will be thoroughly examined.

2. R&D Support:

Formerly known as the Office of the Chief Scientist (OCS), the Israel Innovation Authority has played a central role in advancing research and development by offering grants and financial support. Such funding mechanisms have empowered startups to pursue innovative, high-risk ventures with significant growth potential.

3. Incubators and Accelerators:

Government-sponsored incubators and accelerators have provided startups with critical early-stage support, including funding, mentoring, and networking opportunities. Programs

such as the Technology Incubators Program have been instrumental in reducing barriers to entry for new ventures.

4. Regulatory Reforms:

Regulatory measures aimed at simplifying business processes, protecting intellectual property, and fostering a competitive business environment have also played a crucial role. These policies have reduced bureaucratic hurdles and created a more conducive environment for entrepreneurial activities.

2. How have these policies and initiatives been implemented, and what are their impacts on startup growth and sustainability?

Understanding the implementation and impact of government policies involves a multifaceted analysis. This research question addresses the practical aspects of policy execution and evaluates their effectiveness in achieving desired outcomes.

1. Implementation Mechanisms:

The study will explore how various policies and initiatives were rolled out, including the roles of different government agencies, public-private partnerships, and international collaborations. The governance structures and operational strategies that facilitated successful implementation will be analyzed.

2. Impact on Startup Growth:

To evaluate the effectiveness of these policies, the study will examine indicators including startup formation rates, longevity, funding volumes, and the extent of innovation. It will explore how government initiatives have supported startups in progressing from initial concept to market launch and sustainable growth.

3. Sustainability:

The long-term sustainability of startups will be evaluated by examining factors like continuous access to funding, market expansion, and adaptability to changing market conditions. The role of ongoing government support in maintaining the ecosystem's vibrancy will be a key focus.

3. What lessons can be learned from Israel's approach that can be applied to other emerging startup ecosystems?

Drawing lessons from Israel’s experience involves identifying transferable strategies and best practices that other regions can adopt. This research question seeks to distill these insights and provide a framework for application in different contexts.

1. Best Practices:

The study will highlight best practices in areas such as venture capital development, R&D support, and regulatory reforms. These practices will be contextualized to show how they can be adapted to different socio-economic environments.

2. Challenges and Solutions:

By analyzing the challenges faced during the implementation of various policies and the solutions devised to overcome them, the study will provide valuable insights for other regions. This includes dealing with issues related to funding gaps, regulatory bottlenecks, and talent retention.

3. Policy Recommendations:

Based on the analysis, the study will offer policy recommendations tailored to the needs of emerging startup ecosystems. These recommendations will emphasize the importance of a supportive policy environment, the need for strategic public-private partnerships, and the role of continuous innovation support.

In conclusion, the research questions aim to dissect the intricacies of government policies that have fostered Israel’s startup ecosystem, evaluate their implementation and impacts, and extract lessons that can guide other regions in building their own successful startup environments. By addressing these questions, the study will contribute to the broader understanding of how government interventions can effectively nurture entrepreneurial landscape.

1.5 Significance of the Study

1.5.1 Academic Significance

This study holds academic value by enriching the literature on entrepreneurship and innovation policy, specifically regarding the influence of government action on startup development and economic growth. Through an in-depth exploration of Israel’s startup landscape, it enhances our understanding of how targeted public interventions can cultivate and maintain a robust entrepreneurial setting. The research examines a range of policy tools—including venture capital

programs, R&D incentives, and regulatory adjustments—and assesses their combined effect on the emergence, growth, and resilience of startups.

This study also addresses existing gaps in the literature by integrating insights from multiple disciplines, including economics, public policy, and business studies. It thereby captures the multifaceted dynamics that underpin successful entrepreneurial landscapes. The theoretical frameworks and models developed through this research can serve as a foundation for future studies, enabling scholars to build upon and refine these concepts. Additionally, the comparative analysis of Israel's policies with those of other leading startup ecosystems offers valuable perspectives for academic debates on best practices and innovative policy solutions.

Moreover, the study employs a robust methodological approach, combining qualitative and quantitative data collection techniques. This methodological rigor enhances the reliability and validity of the findings, making them a credible source of information for researchers. The use of case study analysis, expert interviews, and document reviews ensures a rich and nuanced understanding of the complex interactions between government policies and entrepreneurial activities.

1.5.2 Practical Implications for Policymakers and Entrepreneurs

This research equips policymakers with evidence-based recommendations for developing and implementing supportive measures for entrepreneurial growth. By highlighting successful initiatives from Israel, such as the Yozma Program and various R&D grants, the research offers concrete examples of how targeted government interventions can stimulate entrepreneurial activity and attract investment. Policymakers can draw lessons from these examples to develop tailored strategies that address the specific needs and challenges of their own regions.

The study emphasizes the importance of a supportive regulatory environment, access to funding, infrastructure development, and human capital enhancement in fostering a vibrant startup ecosystem. Policymakers can use these insights to create a comprehensive policy framework that encourages innovation, reduces bureaucratic barriers, and provides sustained support for startups. The insights gained from analyzing Israel's entrepreneurial landscape can serve as a strategic model for shaping comparable initiatives in other emerging markets.

For entrepreneurs, the study offers valuable guidance on navigating the startup landscape and leveraging available resources. By understanding the role of government policies in supporting startups, entrepreneurs can better identify opportunities for funding, mentorship, and collaboration. The detailed examination of successful Israeli startups provides practical examples and best practices that can inspire and inform entrepreneurial endeavors in different contexts.

Furthermore, the study highlights the importance of building strong networks and fostering a culture of innovation and risk-taking. Entrepreneurs can learn from the collaborative and resilient spirit of the Israeli startup community, applying these principles to enhance their own ventures. The insights on how startups in Israel have successfully scaled and entered international markets can also provide strategic direction for entrepreneurs looking to expand their operations globally.

Overall, this study offers a valuable resource for both policymakers and entrepreneurs, bridging the gap between academic research and practical application. By offering a detailed understanding of the key drivers behind successful startup ecosystems, this study empowers stakeholders with the insights and resources necessary to stimulate innovation, promote economic development, and build resilient entrepreneurial frameworks.

2. Literature Review

2.1 Theoretical Framework

Entrepreneurial ecosystems are complex systems where multiple actors, institutions, and policy interventions interact to foster innovation and economic growth (Isenberg, 2010). In analyzing how government policy influences startup ecosystems, three theoretical lenses are particularly relevant:

Schumpeterian Innovation Theory posits that economic evolution is driven by “creative destruction,” where new firms replace outdated structures through innovation (Schumpeter, 1942). In this model, governments can act as catalysts for disruption by supporting early-stage innovation and reducing market entry barriers.

Institutional Theory emphasizes how formal rules and regulatory structures shape entrepreneurial behavior and opportunity recognition (North, 1990). Entrepreneurs operating

within supportive institutional settings are more inclined to pursue riskier ventures and commit to long-term investments. **The Entrepreneurial Ecosystem Model** (Isenberg, 2010) presents entrepreneurship as an adaptive system, where success depends on the interplay of policy, finance, talent, infrastructure, and culture. This model recognizes the unique configuration of each ecosystem and the importance of government policy in shaping it.

Together, these frameworks provide a robust foundation for examining the role of Israeli government policy in supporting entrepreneurship.

2.2. The Role of Public Policy in Economic Development

Public policy plays a pivotal role in shaping the conditions that facilitate entrepreneurship and economic development. Effective public policies can create a conducive environment for startups by addressing key areas such as funding, regulation, infrastructure, and education.

1. Financial Support:

Governments can stimulate entrepreneurial activities by providing financial support through grants, subsidies, and tax incentives. Such policies reduce the financial barriers for startups and encourage investment in innovation. For instance, the Yozma Program in Israel, which offered government-backed venture capital funds, significantly boosted private investment in startups and catalyzed the growth of the venture capital industry (Avnimelech & Teubal, 2006).

2. Regulatory Environment:

A favorable regulatory environment is essential for reducing the bureaucratic burdens on startups. Simplified business registration processes, robust intellectual property protection, and flexible labor laws can enhance the ease of doing business. Effective regulation also ensures fair competition and protects consumer interests, fostering a trustworthy market environment (Djankov et al., 2002).

3. Infrastructure Development:

Investments in physical and digital infrastructure are critical for the growth of entrepreneurial ventures. Technology parks, innovation hubs, and co-working spaces provide startups with essential resources and collaborative environments. Additionally, access to high-speed internet and reliable transportation networks is crucial for operational efficiency and market reach (Porter, 1998).

4. Human Capital Enhancement:

Education and training programs are vital for developing the skills and knowledge required for entrepreneurship. Policies that promote STEM education, vocational training, and continuous professional development equip individuals with the capabilities needed to innovate and drive business growth. Public-private partnerships in education can also bridge the gap between academic research and commercial application (Audretsch & Thurik, 2001).

5. Innovation and R&D Support:

Innovation can be stimulated through government support for research and development (R&D). Key approaches include financing R&D initiatives, creating dedicated research institutions, and offering incentives to encourage private sector investment in R&D. These policies facilitate the development of new technologies and products, contributing to economic competitiveness and growth (Mowery & Nelson, 1999).

The interplay between public policy and entrepreneurship is complex and multifaceted. Effective policies not only provide direct support to startups but also create a broader ecosystem that nurtures innovation and economic dynamism. By understanding and leveraging these theoretical frameworks, policymakers can design interventions that foster sustainable entrepreneurial ecosystems and drive long-term economic development.

2.3 Global Perspectives on Startup Ecosystems

Comparative Analysis of Leading Startup Ecosystems

Different countries have adopted varied approaches to fostering innovation. A comparative analysis of Silicon Valley, Berlin, Singapore, and Israel highlights key policy interventions influencing startup success.

1. Silicon Valley, USA – Operates through a market-driven approach, characterized by private sector-led venture capital funding and a culture of risk-taking (Saxenian, 1994). The US government’s role is minimal but facilitates innovation through IP protection (Bayh-Dole Act, 1980) and university-industry collaboration (Mowery & Sampat, 2005).
2. Berlin, Germany – A government-supported ecosystem, focusing on EU-funded grants, tax incentives, and infrastructure development (Fritsch, 2014). Berlin’s lower cost of living also attracts startups compared to Silicon Valley.
3. Singapore – A top-down, highly interventionist model where the government provides direct funding (Startup SG), accelerators, and co-investment schemes (Wong et al., 2004). Unlike Israel, Singapore’s policies are centralized rather than fragmented across agencies.
4. Israel – Balances public and private sector support, where government-initiated programs (Yozma, Israel Innovation Authority) catalyze venture capital investment and high-risk R&D (Avnimelech & Teubal, 2006).

Key Findings from Global Comparisons

- Government intervention varies across ecosystems: Israel and Singapore rely on direct funding, while Silicon Valley operates with private capital.
- Venture capital availability determines ecosystem resilience: Israel’s success stems from a strong VC culture, initially government-driven but now private-sector-led (Trajtenberg, 2002).
- Infrastructure and R&D funding play crucial roles: Countries investing in R&D commercialization (e.g., Israel, Singapore) tend to outperform ecosystems that rely solely on private capital.

This comparative perspective helps position Israel’s hybrid approach as a replicable model for countries aiming to develop a government-led startup ecosystem.

2.3.1 Quantitative Comparisons of Global Startup Ecosystems

The following quantitative data are derived from internationally recognized sources, including OECD (2022), WIPO (2023), Avnimelech & Teubal (2006), and comparative policy literature. A

comparative analysis of leading startup ecosystems provides a foundation for understanding how different regions foster innovation and entrepreneurship. Various factors, such as access to venture capital, startup survival rates, research and development (R&D) investment, and innovation rankings, offer valuable insights into the strengths and limitations of different entrepreneurial environments. These quantitative indicators help contextualize Israel's position relative to other global startup hubs, particularly Silicon Valley (United States), Berlin (Germany), and Singapore.

One of the most critical determinants of startup success is the availability of venture capital (VC). Silicon Valley leads the world in this domain, with an average VC investment of \$2.4 million per startup (Kenney & Zysman, 2016), reflecting the region's well-established investor networks and a culture of high-risk, high-reward entrepreneurship (Kenney & Zysman, 2016). Israel follows with an average of \$1.6 million per startup (Avnimelech & Teubal, 2006), a figure that, while lower than Silicon Valley, is significant given that the country's VC sector was virtually nonexistent before the Yozma Initiative in the 1990s (Avnimelech & Teubal, 2006). Singapore, which has built a strong startup ecosystem through direct government intervention, provides an average of \$1.8 million per startup (Wong et al., 2004), largely due to the Startup SG Equity Program, a co-investment scheme where the state matches private VC funding (Wong et al., 2004). Berlin lags behind at \$1.2 million per startup (Fritsch, 2014), as the region relies more on European Union (EU) grants and public sector funding rather than private VC investments (Fritsch, 2014).

Beyond funding availability, the survival rate of startups over a five-year period is another critical indicator of ecosystem stability. In Silicon Valley, 60% of startups survive (Saxenian, 1994) beyond five years, owing to abundant late-stage funding opportunities, mentorship programs, and an interconnected business culture. Israel's five-year survival rate is 45% (OECD, 2020), reflecting strong government support at the early stages but challenges in securing growth-stage investment. Singapore's startup survival rate, at 47% (Wong et al., 2004), benefits from structured government incubator programs and strategic market access to Asia. In Berlin, however, the 42% survival rate (Feldman, 2014) highlights barriers in bureaucratic complexity and the difficulty of scaling within the European market.

Another important indicator is R&D expenditure as a share of GDP, reflecting the extent of both public and private sector dedication to advancing innovation. Israel leads the world in this area, spending 4.9% (Trajtenberg, 2002) of its GDP on R&D, the highest global figure, reflecting a deeply embedded culture of research and technological development. In contrast, Silicon

Valley's R&D spending, which is largely private-sector driven, accounts for 3.1% (Mowery & Sampat, 2005) of GDP in the United States. Singapore invests 2.9% of GDP (OECD, 2022), with a government-led funding model emphasizing applied research. Berlin, benefiting from EU research grants and public investment programs, allocates 2.8% of GDP (Fritsch, 2014) to R&D, although these funds are often concentrated in specific industries such as manufacturing and engineering rather than software and high-tech entrepreneurship.

These quantitative comparisons reveal that Israel excels in R&D investment and early-stage funding, but challenges remain in late-stage financing and inclusivity within its ecosystem. While the country has successfully transitioned from a government-driven VC model to a more private-sector-led approach, the lack of large-scale funding mechanisms comparable to Silicon Valley's remains a significant limitation.

2.3.2 Quantitative Metrics for Ecosystem Comparison

A deeper examination of individual startup ecosystems provides further insight into how different government policies, financial structures, and cultural attitudes shape entrepreneurial success. The following case studies of Silicon Valley, Singapore, Berlin, and Israel illustrate distinct approaches to fostering innovation and sustaining startup growth.

Silicon Valley represents the most market-driven startup ecosystem globally. Unlike Israel or Singapore, where government policies play an active role, Silicon Valley's success stems from private sector-led venture capital, university-industry collaboration, and a culture of risk-taking (Kenney & Zysman, 2016; Saxenian, 1994). Major VC firms such as Sequoia Capital and Andreessen Horowitz provide extensive funding networks, while institutions like Stanford University and UC Berkeley serve as incubators for innovation (Kenney & Zysman, 2016). The U.S. government plays a limited but supportive role, primarily by funding early-stage research through federal R&D programs and maintaining strong intellectual property (IP) protections under the Bayh-Dole Act of 1980 (Mowery & Sampat, 2005). However, despite its unrivaled investment ecosystem, Silicon Valley struggles with high startup failure rates due to extreme competition and a lack of direct state intervention to support diverse sectors.

In contrast, Singapore follows a state-led model, where government agencies drive startup growth through direct investment and regulatory support. The Startup SG program provides

structured financing, mentorship, and infrastructure, while initiatives such as the Global Investor Program attract foreign entrepreneurs through startup visas and tax incentives (Wong et al., 2004; Wonglimpiyarat, 2016). While this top-down approach fosters stability, critics argue that Singapore's ecosystem lacks the bottom-up dynamism of Silicon Valley or Israel, as state intervention can limit risk-taking and over-reliance on public funding.

Berlin represents a European model that blends public and private funding. EU-backed programs such as EXIST and Horizon 2020 provide critical seed-stage support, and Berlin's lower operational costs make it attractive for early-stage startups (Fritsch, 2014). However, bureaucratic complexities and weaker private VC networks have made scaling more difficult compared to Israel or Silicon Valley.

Israel, in contrast, balances public and private sector collaboration, leveraging government-backed VC funding, military-trained talent, and strong international partnerships (Senor & Singer, 2009). While Israel has successfully transitioned from government-initiated venture capital (Yozma) to a private-sector-led model, challenges remain regarding regional funding imbalances and inclusion of underrepresented entrepreneurs (OECD, 2022).

Figure 2.1 compares four startup ecosystems — Silicon Valley, Israel, Singapore, and Berlin — across several performance dimensions such as R&D investment, VC per capita, and startup survival rates. The underlying data is compiled from secondary sources, including OECD (2022), WIPO (2023), Avnimelech & Teubal (2006), Kenney & Zysman (2016), and Saxenian (1994), which provide both macroeconomic indicators and ecosystem-specific metrics

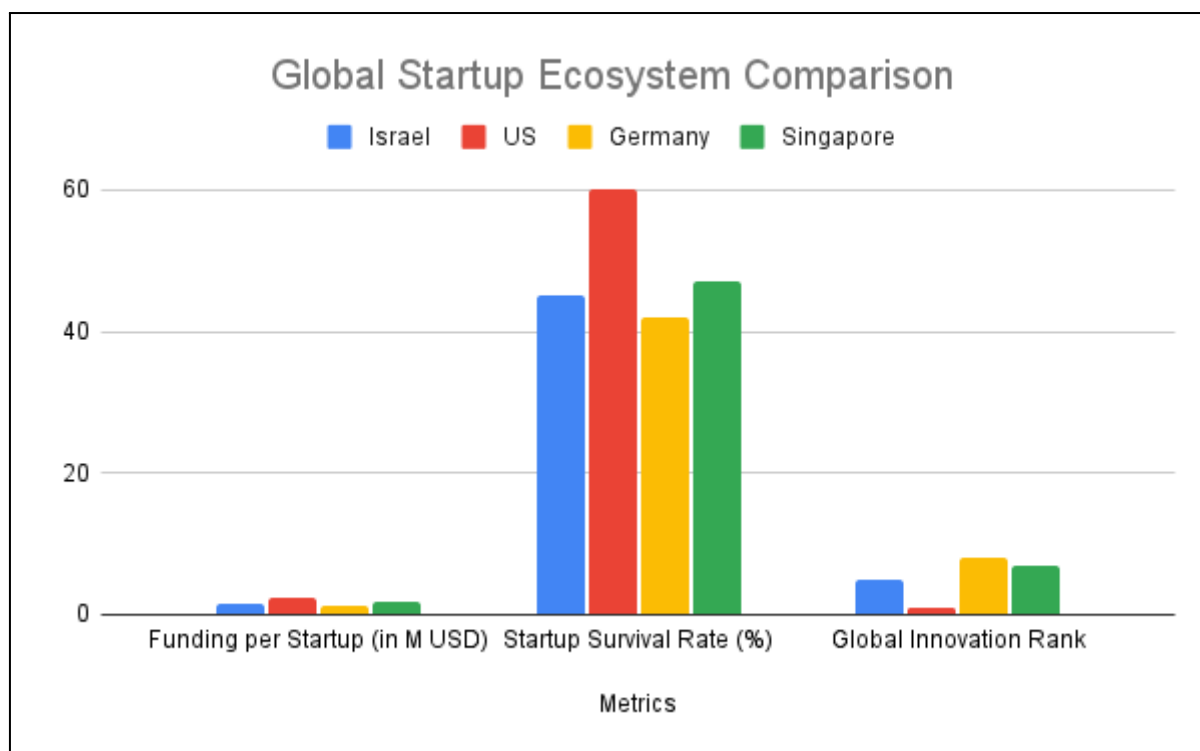


Figure 2.1: Global Startup Ecosystem Comparison

Figure 2.1 is compiled from OECD (2022), WIPO (2023), Avnimelech & Teubal (2006), Kenney & Zysman (2016), and Saxenian (1994).

The comparative analysis of global startup ecosystems is further illustrated in Figure 2.1, which presents key performance metrics for Silicon Valley (United States), Israel, Berlin (Germany), and Singapore. The metrics include funding per startup, five-year startup survival rates, and global innovation rankings (WIPO, 2023; Wonglimpiyarat, 2016), offering a visual representation of the strengths and challenges of each ecosystem.

In terms of venture capital investment per startup, Silicon Valley leads with an average of \$2.4 million per startup, reflecting its mature private investment market and extensive venture capital networks (Kenney & Zysman, 2016). Israel follows with \$1.6 million per startup, largely due to the long-term impact of the Yozma Initiative and a strong government-backed R&D infrastructure (Avnimelech & Teubal, 2006). Singapore (\$1.8 million) surpasses Berlin (\$1.2 million), benefiting from highly structured government co-investment programs such as Startup SG, which encourage both local and foreign VC participation (Wong et al., 2004). Berlin's lower average investment highlights challenges in private sector funding availability, with startups relying more on EU-backed grants (Fritsch, 2014).

The startup survival rate provides further insights into the resilience of these ecosystems. Silicon Valley exhibits the highest five-year survival rate at 60%, driven by access to late-stage funding,

strong mentorship programs, and the presence of established tech giants that facilitate startup acquisitions or partnerships (Saxenian, 1994). Israel and Singapore report startup survival rates of 45% and 47%, respectively—figures that can be attributed to well-organized government support during the initial phases of venture growth (OECD, 2020). In contrast, Berlin shows a slightly lower rate of 42%, highlighting challenges in business scaling and limited access to post-seed funding. (Feldman, 2014).

Finally, the Global Innovation Index rankings provide an overarching measure of each country's broader innovation environment. Israel ranks 5th (Trajtenberg, 2002) globally, reinforcing its reputation as a technology-driven economy with an exceptionally high focus on R&D investment and talent cultivation. Silicon Valley, representing the U.S. (Mowery & Sampat, 2005), remains the global leader, with dominance in venture capital, university research collaboration, and tech industry influence. Singapore and Berlin, ranked 7th and 8th (Wonglimpiyarat, 2016) respectively, demonstrate strong regional leadership but face unique challenges—Singapore's reliance on state-driven funding models and Berlin's dependence on fragmented EU policy structures.

Lessons from the Comparative Metrics

The quantitative comparisons presented in Figure 2.1 highlight several critical insights regarding government intervention, ecosystem maturity, and funding structures across leading startup hubs. First, government policies play a crucial role in shaping startup growth and survival, as demonstrated by Israel and Singapore, where proactive policies targeting venture capital formation, infrastructure, and international market access have significantly influenced ecosystem outcomes (OECD, 2022). Programs such as Yozma in Israel and Startup SG in Singapore exemplify how public-private partnerships drive sustainable innovation and attract private investment.

Second, the role of ecosystem maturity is evident in Silicon Valley's metrics. As the world's most developed startup ecosystem, Silicon Valley benefits from strong network effects, well-established financial markets, and a culture that prioritizes risk-taking and rapid innovation cycles (Kenney & Zysman, 2016). This maturity creates a self-sustaining environment where successful startups reinvest in new ventures, strengthening the ecosystem further.

Lastly, the comparison underscores Berlin's policy gaps in supporting late-stage startups. While Berlin benefits from strong public-sector grants and EU funding mechanisms, its lower levels of venture capital investment and startup survival rates indicate the need for stronger private-sector

engagement (Fritsch, 2014). Unlike Israel and Singapore, which have transitioned from government-driven models to hybrid public-private investment structures, Berlin's startup ecosystem remains heavily dependent on public funding. Addressing this structural imbalance could enhance its competitiveness on a global scale.

2.3.3 Key Success Factors in Leading Ecosystems

From this comparative analysis, several critical success factors emerge as determinants of a strong startup ecosystem. Access to venture capital remains a primary driver, as ecosystems with strong private investor networks (Silicon Valley, Israel) tend to outperform those reliant on public sector support (Berlin, Singapore). Similarly, government policy and regulatory environments significantly influence ecosystem growth, with Singapore's structured intervention fostering stability, while Israel's hybrid model encourages risk-taking with state-backed security nets. Talent development and R&D investment also play a decisive role, with Israel leading in R&D intensity and Silicon Valley excelling in talent acquisition through university-industry collaboration.

The Early Foundations of Israel's Innovation Economy (Pre-1990s)

Israel's transformation into a global high-tech and startup hub did not occur spontaneously but was the result of decades of strategic policy decisions, defense-driven technological advancements, and state-led economic interventions (Trajtenberg, 2002). Unlike market-driven ecosystems such as Silicon Valley, where private investment played the primary role, Israel's entrepreneurial environment was actively shaped by government intervention and institutional reforms (Breznitz, 2007).

Israel's technology-focused economic strategy has its origins in the 1960s and 1970s, a period during which the government heavily invested in research and development, especially within the telecommunications, agriculture, and defense sectors. The creation of state-owned enterprises like Israel Aerospace Industries (IAI) and Rafael Advanced Defense Systems played a crucial role in building the country's technological capabilities and infrastructure (Senor & Singer, 2009).

Additionally, the Office of the Chief Scientist (OCS), established in 1969, played a crucial role in promoting applied research and commercialization of scientific innovations (Breznitz & Ornston, 2013).

During the 1980s, a shift toward privatization and economic liberalization began to reshape Israel's innovation landscape. Following a period of hyperinflation and economic instability, the Israeli government implemented macroeconomic stabilization policies and gradually reduced direct state control over industrial development (Avnimelech & Teubal, 2006). While defense-related R&D remained dominant, the government recognized the need to diversify technological advancements beyond military applications.

The Emergence of the Startup Ecosystem: 1990s and Early 2000s

The 1990s marked a pivotal era in Israel's transition toward a globally competitive startup ecosystem. One of the most transformative government initiatives was the Yozma Program, launched in 1993, which catalyzed Israel's venture capital (VC) industry (Avnimelech & Teubal, 2008). Under Yozma, the Israeli government provided matching funds and tax incentives to private investors, effectively de-risking early-stage venture capital investments and attracting foreign capital inflows. This initiative laid the groundwork for Israel's now-thriving VC sector, shifting the ecosystem from a government-dependent model toward private-sector-driven growth (Trajtenberg, 2002).

During the early 2000s, Israel further expanded its entrepreneurial infrastructure through a combination of:

- Tech incubators funded by the Israel Innovation Authority (formerly OCS), supporting high-risk startups (Breznitz, 2007).
- University-industry partnerships that facilitated technology commercialization (Schwab, 2011).
- International collaborations, particularly with the U.S. and Europe, strengthening global market integration (OECD, 2018).

By the mid-2000s, Israel's high-tech sector accounted for over 50% of its total industrial exports, reflecting the success of state-led initiatives in transforming the economy (Feldman, 2014). However, new challenges emerged, including regional disparities in startup funding, limited

support for social entrepreneurship, and overconcentration in a few high-growth industries such as cybersecurity and artificial intelligence (OECD, 2022).

Challenges and Limitations of Government-Led Growth (2010s-Present)

While Israel's government-driven startup model has been widely praised, recent analyses highlight several structural challenges that require policy adaptation:

1. **Sectoral Overconcentration:** A disproportionate focus on deep-tech industries (e.g., cybersecurity, AI, biotech) has led to neglect in non-tech sectors (Trajtenberg, 2002).
2. **Geographic Imbalance:** Tel Aviv dominates the Israeli startup landscape, with fewer initiatives supporting entrepreneurship in peripheral regions such as the Negev and Galilee (Feldman, 2014).
3. **Inclusivity Gaps:** Arab-Israeli and ultra-Orthodox entrepreneurs remain underrepresented in the high-tech ecosystem, receiving less than 1% of venture capital funding (OECD, 2022).

These limitations underscore the need for an updated, adaptive policy framework, which is explored in Section 2.4 on Government Policies and Initiatives.

2.4. Government Policies and Initiatives (Theoretical Background)

Government intervention plays a pivotal role in shaping entrepreneurial ecosystems by fostering innovation, reducing entry barriers, and mitigating market failures (Audretsch, 2007). Policies targeting financial support, regulatory reforms, and infrastructure investment can significantly influence the growth trajectory of startups. The effectiveness of these interventions, however, depends on their alignment with market needs and their adaptability to evolving business landscapes (Isenberg, 2010).

2.4.1 Theoretical Models of Government Support

Government interventions in startup ecosystems are best understood through theories that account for institutional arrangements and innovation dynamics. Three dominant models are applied in this thesis:

- **Schumpeterian Innovation Theory** (Schumpeter, 1942): Israel's government has acted as an enabler of innovation by supporting disruptive technologies through public funding, thereby accelerating the process of creative destruction.
- **Institutional Theory** (North, 1990): Israel's regulatory reforms, simplified business processes, and intellectual property protections are aligned with the idea that institutions shape incentives and lower barriers for entrepreneurial action.
- **Ecosystem Perspective** (Isenberg, 2010): Israel's multifaceted support system—including incubators, education initiatives, and international collaboration—reflects a systemic view of entrepreneurship, in which government plays a coordinating role across ecosystem elements.

These models frame the analysis of Israel's public policies throughout the study.

2.4.2 Comparative Analysis of Government Policies in Global Startup Ecosystems

Israel's policy-driven approach can be understood in comparison to other leading startup ecosystems, each of which represents a distinct model of government involvement in fostering entrepreneurship and innovation. By analyzing these models, it is possible to contextualize Israel's unique blend of **state intervention and private sector dynamism** within the broader global startup landscape.

- **Silicon Valley (Market-Driven Model):** Widely regarded as the world's premier startup ecosystem, Silicon Valley operates with minimal government intervention, relying instead on a strong private venture capital network, corporate R&D investments, and an entrepreneurial culture that prioritizes high-risk, high-reward innovation (Feldman, 2014). The absence of direct government funding for startups is compensated by robust angel investing, startup incubators, and a deep-rooted culture of reinvestment from successful entrepreneurs. This model fosters a high degree of agility and scalability but also creates barriers for startups without access to private funding networks.
- **Singapore (State-Led Model):** In contrast to Silicon Valley, Singapore's startup ecosystem is highly structured and government-led, with the state playing an active role in shaping

entrepreneurial growth. Singapore has effectively established itself as a center for deep-tech, fintech, and AI innovation through a range of strategic initiatives, including Startup SG, co-investment programs, R&D tax benefits, and state-supported accelerator schemes (Wong et al., 2004). Unlike purely market-driven ecosystems, Singapore's model ensures consistent funding for early-stage ventures, reducing financial uncertainty for startups. However, state control over funding allocation and market direction can sometimes limit organic innovation.

- **Germany (EU-Funded Model):** Germany's startup ecosystem blends national and European Union (EU) funding mechanisms, creating a structured yet flexible environment for innovation. The German government provides grants and soft loans to support startups, often leveraging EU research and innovation funds to encourage entrepreneurship in key sectors such as green technology, industrial automation, and life sciences (Fritsch, 2014). Unlike Silicon Valley's purely private VC model or Singapore's state-led initiatives, Germany balances public investment with private sector participation, ensuring a broad and stable funding base for startups. However, bureaucratic hurdles and complex regulatory requirements sometimes slow down entrepreneurial activity.

By comparing these models, Israel's policy-driven approach emerges as a hybrid—combining elements of government support and private sector dynamism. Like Singapore, Israel has actively shaped its startup ecosystem through targeted policy interventions, venture capital incentives, and R&D grants. However, it also maintains Silicon Valley's emphasis on private investment, international VC involvement, and tech-driven entrepreneurship. This hybrid approach has proven highly effective in fostering early-stage innovation, but as Israel's startup ecosystem matures, it faces challenges similar to those of Germany—particularly in navigating regulatory inefficiencies and scaling its startups to global markets. Understanding these comparative frameworks provides valuable insights into how Israel can refine its policies to sustain long-term innovation-driven growth.

2.4.3 The Israeli Government's Role in Startup Growth

Israel's government-led model integrates elements of both market-driven and state-led approaches, creating a hybrid innovation ecosystem that balances private investment with public sector support. Unlike purely market-driven ecosystems, where private venture capital dominates, or state-controlled models, where governments direct funding allocation, Israel's

approach fosters entrepreneurial risk-taking while mitigating early-stage financial barriers through targeted policy interventions.

Key Policies Driving Israel's Startup Growth

- **Yozma Initiative (1993):** A pivotal element in the evolution of Israel's venture capital landscape was the Yozma program, which introduced a government-matching scheme to encourage both local and international investors to back Israeli startups (Avnimelech & Teubal, 2006). Within a decade, this initiative catalyzed a sixfold increase in venture capital availability, fostering a strong culture of early-stage investment and enabling startups to access private-sector funding at critical growth stages. The success of Yozma later inspired similar VC-promotion policies in other emerging innovation hubs, including South Korea and Taiwan.
- **Israel Innovation Authority (2016):** Originally established as the Office of the Chief Scientist, the Israel Innovation Authority (IIA) was restructured to administer competitive R&D grants, industry-specific funding programs, and international collaboration initiatives. The IIA plays a pivotal role in sustaining innovation pipelines, ensuring that high-risk, high-reward research projects receive adequate financial backing. Additionally, the IIA facilitates cross-border partnerships with multinational corporations, universities, and foreign governments, further strengthening Israel's global tech influence.
- **Technological Incubators Program:** Designed to support early-stage startups, this government-funded program provides mentorship, infrastructure, and seed capital, de-risking entrepreneurship for first-time founders. The incubator model has been instrumental in converting academic research into commercial startups, particularly in life sciences, deep tech, and agritech. By nurturing innovation at the earliest stages, the program helps bridge the gap between scientific discovery and scalable business ventures.

Implications for Entrepreneurial Growth

These policies, deeply rooted in theoretical models of entrepreneurship, demonstrate how strategic government interventions can accelerate startup formation and scale innovation ecosystems. The Yozma Initiative aligns with Schumpeterian Innovation Theory, where state-backed capital serves as a catalyst for creative destruction and market renewal. The IIA's funding mechanisms reflect Resource-Based View (RBV) principles, ensuring startups gain access to critical financial and human capital resources. Meanwhile, the Technological

Incubators Program supports Institutional Theory, which emphasizes the role of regulatory frameworks and structured incentives in shaping entrepreneurial activity.

Israel's hybrid approach has proven highly effective in jumpstarting venture activity, yet as the ecosystem matures, the challenge lies in sustaining long-term innovation beyond early-stage funding. By refining scaling strategies, reducing bureaucratic friction, and fostering inclusivity in startup participation, Israel can further solidify its position as a global leader in technology-driven economic growth.

2.5 Conceptual Framework: Government Influence on Entrepreneurial Ecosystems

Venture success is seldom achieved in isolation; rather, it results from complex interactions among market dynamics, institutional arrangements, and policy interventions. The Israeli startup ecosystem is a prime example of how strategic government policies can accelerate innovation, influencing startup formation, survival, and global competitiveness. This section synthesizes existing theoretical models to construct a conceptual framework that explains the mechanisms through which government policies impact startup ecosystems.

2.5.1 Theoretical Models of Entrepreneurship and Government Intervention

The Israeli startup ecosystem has evolved through a complex interplay of public policy, institutional reform, and market forces. To understand how government intervention has shaped this environment, three core theoretical frameworks offer valuable analytical tools: **Schumpeterian Innovation Theory**, **Institutional Theory**, and the **Entrepreneurial Ecosystem Model**. Each provides a distinct perspective on the mechanisms through which state policies influence entrepreneurial outcomes.

Schumpeterian Innovation Theory (Schumpeter, 1942) posits that economic development is driven by “creative destruction”—a continuous cycle in which new innovations displace existing market structures. In the Israeli context, the government has actively embraced this concept by directing resources toward high-risk, high-impact technological ventures. Programs such as the Yozma Initiative (Avnimelech & Teubal, 2006) and Israel Innovation Authority (IIA) grants exemplify how the state facilitates disruption through targeted venture capital and R&D

subsidies. By absorbing initial market risks, these interventions enable startups to pursue breakthrough innovations that might otherwise struggle to attract private investment.

Institutional Theory (North, 1990) emphasizes the role of formal rules, legal systems, and governance structures in shaping entrepreneurial behavior. Institutions reduce uncertainty and transaction costs, creating a predictable environment in which business activity can flourish. Israel's policy framework reflects this logic through regulatory simplification, streamlined business registration processes, and strong intellectual property protections. These measures reduce entry barriers and transaction friction, allowing entrepreneurs to focus on value creation rather than compliance navigation. Additionally, the establishment of sector-specific regulatory sandboxes in areas like fintech and medical technology demonstrates how adaptive institutional design can further enhance startup activity.

The Entrepreneurial Ecosystem Model (Isenberg, 2010) takes a holistic view, arguing that entrepreneurship thrives within interconnected systems composed of stakeholders (entrepreneurs, investors, universities, and government), resources (capital, talent, infrastructure), and enabling culture (tolerance for risk, collaboration, and innovation). In Israel, the government has played an orchestral role in synchronizing these components. For example, initiatives like technological incubators bridge academic research with commercial opportunity, while internationalization programs support early global scaling—a necessity given Israel's small domestic market. The government's proactive engagement in nurturing talent, providing funding infrastructure, and fostering cross-border partnerships illustrates its system-level influence on ecosystem vitality.

Taken together, these three frameworks provide a comprehensive theoretical foundation for understanding how Israeli government policies foster entrepreneurship. Rather than acting in isolation, government interventions shape the **institutional, financial, and cultural contours** of the startup landscape. This synergy helps explain why Israel has maintained global leadership in innovation despite limitations in geographic size and natural resources.

The integration of these theories informs the conceptual model that follows in section 2.5.2 and supports the empirical analysis of policy impact presented in later chapters.

2.5.2 Conceptual Framework for Analyzing Israeli Government Policies

By integrating these theoretical perspectives, a conceptual model emerges that explains how Israeli government policies influence its startup ecosystem. As illustrated below, the model identifies key policy-driven mechanisms that affect startup formation, survival, and global expansion.

Key Components of the Framework

1. Government Interventions as Catalysts for Innovation

- Direct funding (e.g., grants, R&D subsidies).
- Venture capital incentives (e.g., Yozma Program).
- Infrastructure investment (e.g., startup incubators).

2. Regulatory Environment as an Enabler of Entrepreneurship

- Business-friendly regulations that reduce bureaucratic hurdles.
- Tax benefits and intellectual property protections.

3. Human Capital Development and Market Expansion

- Government-backed STEM education and entrepreneurship training.
- Policies that support international expansion and trade partnerships.

4. Feedback Loops and Policy Adaptation

- Continuous evaluation of policy effectiveness.
- Adjustments based on startup performance and market trends.

By focusing on these mechanisms, this framework provides a structured approach to assessing the real-world impact of Israeli policies, which will be further examined in the discussion section (6.1).

To better illustrate the dynamics of startup ecosystems, the following conceptual model synthesizes the key inputs and outputs that drive entrepreneurial success. This model integrates

theoretical insights from the resource-based view, institutional theory, and ecosystem perspectives.

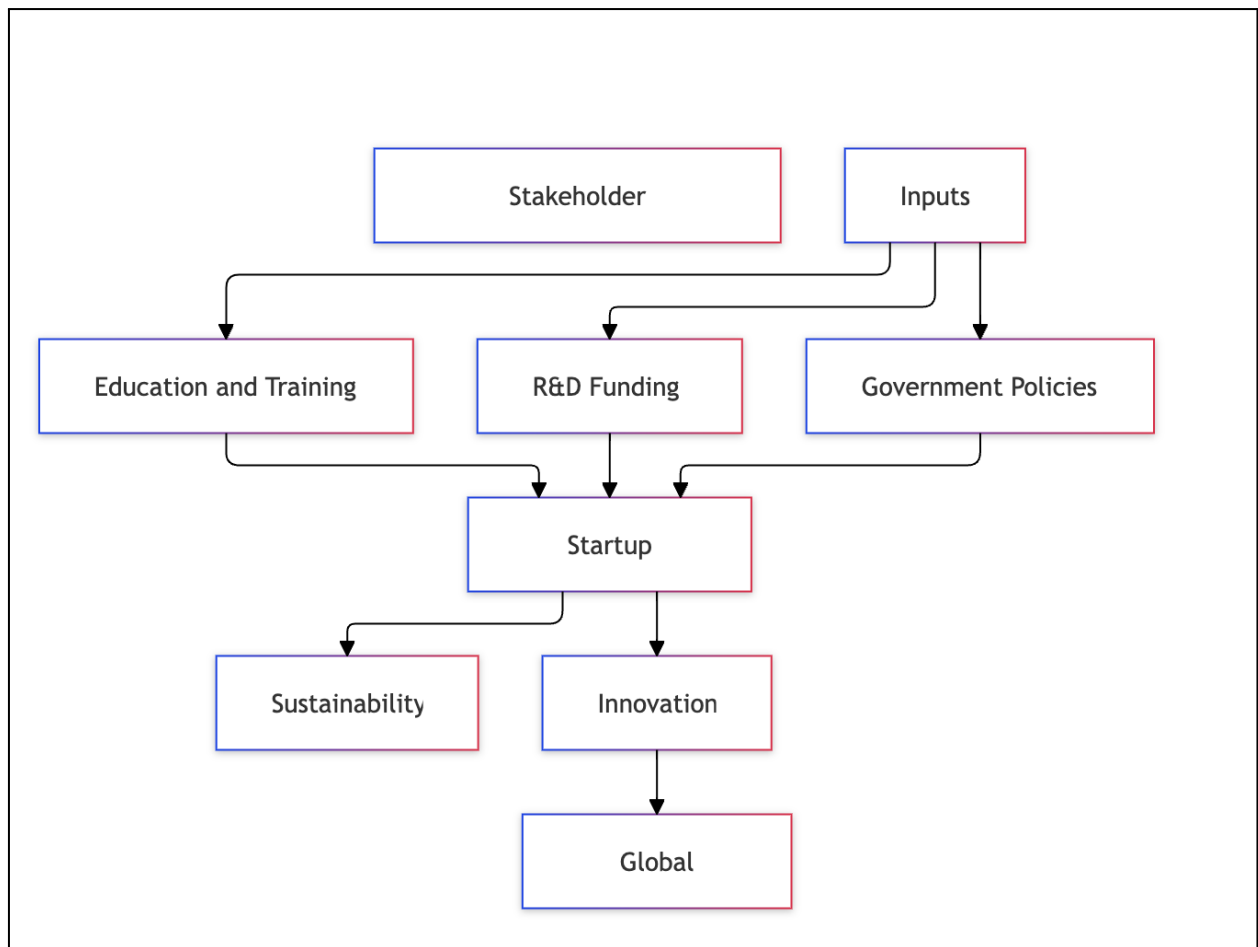


Figure 2.2: Conceptual Framework for Startup Ecosystems

Figure 2.2: Conceptual framework illustrating the key components that contribute to the success of startup ecosystems. The model integrates government policies (financial support, regulatory environment, infrastructure, human capital, and R&D) with entrepreneurial ecosystem factors (access to capital, talent, culture, and community). These elements interact to foster innovation, growth, and sustainability, providing a structured approach to analyzing the impact of policy interventions on startups.

Proposed Conceptual Model:

The proposed conceptual model integrates these core components into a cohesive framework that illustrates the interplay between government policies, ecosystem factors, and startup success. This model serves as a basis for understanding how different elements interact to create a supportive environment for startups.

Propositions Guiding the Research

Based on the conceptual model, the following propositions guide the research:

Proposition 1: Government financial support through grants and subsidies positively impacts the growth and sustainability of startups.

This proposition is strongly supported by expert interviews, which highlighted early-stage funding mechanisms such as the Yozma Initiative and grants provided by the Israel Innovation Authority as essential for enabling startups to take initial risks and accelerate growth.

Proposition 2: A favorable regulatory environment that simplifies business processes and reduces bureaucratic inefficiencies enhances the ease of doing business and fosters entrepreneurial activity.

Several interviewees emphasized persistent regulatory inefficiencies, despite improvements such as fast-track visas and digital company registration. While reforms have been implemented, the need for further streamlining was a recurring theme.

Proposition 3: A robust venture capital industry and access to diverse funding sources are critical for startup growth and sustainability.

This is backed by expert insights that emphasized the abundance of early-stage funding but a significant gap in late-stage (Series B/C) investment. Many startups are forced to relocate abroad due to limited domestic scale-up funding options.

Proposition 4: A strong entrepreneurial culture and a supportive community that encourages collaboration and mentorship enhances the overall performance of the startup ecosystem.

The culture of openness, accessibility to mentors, and cross-sector knowledge-sharing was consistently highlighted by interviewees, particularly referencing the influence of military units like 8200 and informal founder networks.

These propositions provide a structured approach to investigating the impact of government policies and ecosystem factors on the success of startups. By examining these propositions, this study seeks to advance the broader scholarly understanding of the conditions under which

government interventions can effectively foster and sustain dynamic entrepreneurial environments.

3. Research Methodology

Building on the conceptual framework and propositions developed in Chapter 2.5, this chapter outlines the methodological approach used to explore the Israeli government's role in supporting startup development. The research design integrates an exploratory case study structure with expert interviews to generate grounded, theory-informed insights.

3.1 Research Design

Study employs an explorative case study approach, primarily guided by Yin's case study design, to investigate the role of Israeli government policies in nurturing a startup ecosystem. To enhance the analytical rigor, elements of Glaser's Grounded Theory methodology are integrated, providing a systematic procedure for developing theories that emerge directly from the data (Glaser, 2023). The case study method is particularly suitable for this research due to its ability to provide in-depth insights into complex, real-life phenomena. By focusing on the Israeli startup ecosystem, this study aims to uncover the mechanisms through which government policies influence entrepreneurial activities, innovation, and economic growth.

An exploratory case study design is well-suited for research aiming to investigate the contextual and situational factors underpinning a particular occurrence. This methodology enables an in-depth analysis of the multiple, interrelated elements and their dynamics within the broader system. The adaptability of the case study approach allows researchers to draw on diverse sources of evidence—including archival materials, interviews, direct observations, and documents—thereby enhancing the depth of analysis and fostering a comprehensive understanding of the research question (Yin, 2018).

The Israeli startup ecosystem serves as a single case study with embedded units of analysis, such as specific government initiatives, policies, and support mechanisms. This allows for a detailed exploration of each component and its impact on the overall ecosystem. The findings from this case study can provide valuable insights and implications for other regions seeking to develop or enhance their own startup ecosystems.

Justification for Using Yin's Case Study Design and Integration with Glaser's Grounded Theory

The choice of Yin's case study design is justified based on its systematic and rigorous approach to case study research. Robert K. Yin is widely recognized for his contributions to case study methodology, offering a well-established framework for conducting rigorous and systematic case study research. His approach emphasizes several essential elements of strong research design, including clearly defined research questions, theoretical propositions, unit(s) of analysis, the logical connection between data and propositions, and the criteria used for interpreting the results (Yin, 2018).

To further enrich the analytical depth of this research, elements of Glaser's Grounded Theory methodology are incorporated. Grounded Theory, as developed by Barney Glaser, emphasizes the generation of theory from data through a systematic process of coding and categorization. This methodology complements Yin's case study approach by providing a structured procedure for theory development that is grounded in empirical data (Glaser, 2023).

Key Components of Yin's Case Study Design with Grounded Theory Integration:

1. Research Questions:

According to Yin's case study design, the development of well-defined research questions represents a foundational step in guiding the inquiry. In line with this approach, the present study addresses the following research questions:

- What are the key government policies and initiatives that have contributed to the development of Israel's startup ecosystem?
- How have these policies and initiatives been implemented, and what are their impacts on startup growth and sustainability?
- What lessons can be learned from Israel's approach that can be applied to other emerging startup ecosystems?

These questions are aligned with the exploratory nature of the study, aiming to uncover the mechanisms and contextual factors influencing the Israeli startup ecosystem.

2. Propositions:

Propositions help to focus the scope of the study and guide data collection and analysis. For this research, the propositions are based on the hypotheses formulated in the conceptual framework, such as the positive impact of government financial support, a favorable regulatory environment, infrastructure development, human capital development, and support for R&D on the growth and sustainability of new ventures.

3. Objects of study:

The primary object of study in this research is the Israeli startup ecosystem. Within this overarching framework, the analysis focuses on embedded objects of study, specifically key government initiatives such as the Office of the Chief Scientist, the Yozma Program, and various R&D support instruments. This structure enables a nuanced examination of how individual policy measures contribute to the development and sustainability of the broader entrepreneurial environment.

4. Logic Linking Data to Propositions:

Guided by Grounded Theory, this study employs coding and categorization techniques to uncover recurring themes and patterns within the data, which are subsequently connected to the study's theoretical propositions.

5. Criteria for Interpreting Findings:

Combining Yin's rigorous criteria with the iterative process of theory development in Grounded Theory ensures a robust and comprehensive analysis.

Advantages of Yin's Case Study Design:

The integration of Glaser's Grounded Theory with Yin's case study design offers a structured yet flexible framework for systematically collecting, analyzing, and interpreting data. This approach not only ensures the reliability and validity of the findings but also facilitates the development of grounded theories that provide deeper insights into the role of government policies in the Israeli startup ecosystem.

3.2 Case Selection

3.2.1 Criteria for Selecting Israel as a Case Study

The selection of Israel as a case study for investigating the role of government policies in nurturing a startup ecosystem is based on several compelling criteria. These criteria ensure that the chosen case is not only relevant but also provides rich insights into the research questions.

1. Exemplary Model of a Startup Ecosystem:

Israel, often referred to as the “Startup Nation,” is globally recognized for its vibrant and successful startup ecosystem. The country boasts one of the highest densities of startups per capita, a robust venture capital industry, and a strong culture of innovation. This makes Israel an exemplary model for studying the dynamics of a thriving startup ecosystem (Senor & Singer, 2009).

2. Comprehensive Government Involvement:

The Israeli government has played a proactive and strategic role in developing its startup ecosystem. Through a variety of policies and initiatives, the government has provided substantial support for startups, ranging from financial incentives and regulatory reforms to infrastructure development and human capital enhancement. The extensive government involvement provides a rich context for analyzing the impact of public policies on entrepreneurial activities (Avnimelech & Teubal, 2006).

3. Availability of Data and Research:

Israel’s startup ecosystem has been the subject of numerous studies, reports, and data collections, providing a wealth of information for analysis. The availability of comprehensive data on various aspects of the ecosystem, including government policies, startup performance, and economic impact, facilitates a detailed and rigorous examination (Breznitz & Ornston, 2013).

4. Relevance to Other Emerging Ecosystems:

Many emerging economies and regions are looking to replicate Israel’s success in developing their own startup ecosystems. Studying Israel’s policies and initiatives can provide valuable lessons and best practices that can be adapted to different contexts. This makes the findings from

this case study highly relevant and applicable to other regions seeking to foster innovation and entrepreneurship (Carree & Thurik, 2010).

3.2.2 Description of the Specific Policies and Initiatives to Be Studied

To comprehensively understand the role of government policies in nurturing the Israeli startup ecosystem, this study will focus on several key policies and initiatives that have been instrumental in driving growth and innovation.

1. The Yozma Program:

Launched in 1993, the Yozma Program is one of Israel's most notable initiatives aimed at fostering a venture capital industry. By offering tax incentives and matching funds to private venture capital investments, the Yozma Program successfully attracted significant foreign investment and led to the establishment of numerous venture capital funds. This initiative played a crucial role in providing startups with the necessary financial resources to grow and scale (Avnimelech & Teubal, 2006).

2. Office of the Chief Scientist (OCS):

Now integrated into the Israel Innovation Authority, the former Office of the Chief Scientist (OCS) has played a central role in advancing research and development (R&D) efforts across Israel. By offering financial support for innovative initiatives, the OCS has enabled the translation of technological ideas into market-ready solutions. Programs such as the R&D Fund and the Magnet Program have been instrumental in promoting technological progress and nurturing an innovation-oriented environment (Trajtenberg, 2002).

3. Technological Incubators Program:

Established to support early-stage startups, the Technological Incubators Program provides funding, mentorship, and resources to help startups navigate the critical early phases of development. These incubators offer a supportive environment where startups can develop their ideas, build prototypes, and attract initial investments. The program has been successful in reducing the barriers to entry for new ventures and promoting entrepreneurial activity (Schwartz & Bar-El, 2015).

4. Regulatory Reforms:

The Israeli government has implemented several regulatory reforms aimed at creating a favorable business environment for startups. These include simplifying business registration processes, enhancing intellectual property protection, and providing tax incentives for investment in high-tech industries. Such reforms have reduced bureaucratic hurdles and made it easier for startups to operate and grow (OECD, 2018).

5. Human Capital Development Programs:

Acknowledging the critical role of skilled human capital in fostering innovation, the Israeli government has made substantial investments in education and workforce development. Targeted initiatives supporting STEM (Science, Technology, Engineering, and Mathematics) education, entrepreneurship training, and lifelong learning have been central to cultivating a highly qualified talent pool equipped to sustain and propel technological advancement. Programs like the Talpiot program, which combines academic excellence with military training, exemplify the focus on cultivating high-caliber talent (Senor & Singer, 2009).

6. Support for Internationalization:

To help Israeli startups access global markets, the government has introduced various programs aimed at promoting international collaborations and market expansion. Initiatives such as the Global Enterprise R&D Collaboration Framework encourage partnerships between Israeli startups and multinational companies, facilitating knowledge exchange and access to international markets (Breznitz & Ornston, 2013).

By examining these specific policies and initiatives, this study aims to provide a detailed understanding of how government interventions have contributed to the success of the Israeli startup ecosystem. The insights gained from this analysis will offer valuable lessons for other regions seeking to develop or enhance their own entrepreneurial ecosystems.

3.3 Methods of Data Collection

3.3.1 Sources of Empirical Evidence: Primary and Secondary

To enable a thorough examination of how government policies contribute to the development of Israel's startup ecosystem, this study integrates both primary and secondary data sources. The use of multiple data types enhances the analytical depth and strengthens the validity of the findings by facilitating a multifaceted exploration of the research questions.

Primary Empirical Evidence:

Primary data for this study will be obtained through in-depth interviews with subject-matter experts actively engaged in or closely observing the Israeli startup ecosystem. Expert interviews are a valuable method for obtaining in-depth and nuanced insights from individuals with extensive knowledge and experience in the Israeli startup ecosystem. These interviews will help to understand the implementation and impact of various government policies from the perspectives of those directly involved in or affected by these policies.

Secondary Data Sources:

Secondary data will be sourced from a variety of documents and records, including:

- Government reports and policy documents related to the Israeli startup ecosystem.
- Academic articles and research papers on entrepreneurship, innovation, and public policy.
- Industry reports and publications from organizations such as the OECD and World Bank.
- Historical data on startup formation, venture capital investment, and economic indicators.

These secondary sources provide a contextual background and supplement the findings from the primary data, offering a comprehensive view of the ecosystem and the policies in question.

3.3.2 Details on Expert Interviews

Selection of Experts:

To ensure diverse representation of key stakeholder groups within the Israeli startup ecosystem, experts will be identified using purposive sampling. Participants will be selected based on the following criteria:

- **Relevant Experience:** Experts must have significant experience in the Israeli startup ecosystem, either through direct involvement (e.g., entrepreneurs, venture capitalists) or through research and policy-making (e.g., academics, government officials).
- **Diverse Perspectives:** To capture a comprehensive view, experts from different sectors such as government, private sector, academia, and non-profit organizations will be included.
- **Recognition and Influence:** Experts who are recognized for their contributions to the field and have a notable influence on the ecosystem will be prioritized.

Interview Procedures:

The following procedures will be followed to conduct the expert interviews:

1. **Preparation:** Experts will be contacted via email or phone to request their participation. The purpose of the study and the significance of their contribution will be explained. Upon agreement, a suitable time and format (in-person, telephone, or video conference) for the interview will be scheduled.
2. **Informed Consent:** Prior to each interview, the researcher will provide participants with a clear explanation of the study's objectives, methodology, and ethical considerations—such as confidentiality and the voluntary nature of participation, including the right to withdraw at any stage. Informed written consent will be obtained from all participants.
3. **Conducting the Interview:** Interviews will be conducted using the interview guide. The researcher will adopt a flexible approach, allowing the conversation to flow naturally while ensuring that all key topics are covered. Interviews will be recorded (with the participant's consent) and notes will be taken.
4. **Transcription and Analysis:** All recorded interviews will be transcribed verbatim and subsequently coded and analyzed using qualitative data analysis software, such as NVivo. This process will facilitate the identification of recurring themes, patterns, and insights aligned with the study's research questions.

3.3.3 Ethical Considerations

Ethical considerations are central to the conduct of expert interviews. This study will ensure the following:

- **Confidentiality:** All interview responses and personal information will be treated with strict confidentiality. To safeguard participant identities, all data will be anonymized during transcription and analysis.
- **Voluntary Participation:** Participation in the study is voluntary, and experts can withdraw at any time without any consequences.

- **Informed Consent:** Participants will be thoroughly briefed on the study's objectives, procedures, and their rights—including the right to withdraw at any time—prior to providing informed consent.

Through the integration of both primary and secondary data sources, alongside the application of rigorous data collection methods and ethical safeguards, this study seeks to deliver a comprehensive and credible analysis of how government policies contribute to the development of Israel's startup ecosystem.

3.4 Data Analysis

3.4.1 Analytical Techniques for Qualitative Data

The analysis of qualitative data involves a systematic process of coding, categorizing, and interpreting data to uncover patterns, themes, and insights. For this study, several analytical techniques will be employed to ensure a comprehensive and rigorous analysis of the interview data and other qualitative information collected.

1. Categorization and Coding:

Coding refers to the systematic process of organizing qualitative data by assigning labels to segments of text, enabling the identification and classification of meaningful patterns and analytical categories. Initially, open coding will be applied to break down the interview transcripts into discrete segments that capture relevant information. These segments will be labeled with descriptive codes that reflect their content. As patterns emerge, axial coding will be used to relate codes to each other, forming categories and subcategories that represent broader themes.

2. Interpretive Analysis of Themes

Thematic analysis is a qualitative technique used to identify, analyze, and interpret recurring patterns or themes within the data. It is particularly effective for uncovering the complexity and depth inherent in qualitative narratives. In this study, themes will be generated through an iterative process that involves repeated reading of transcripts, systematic coding, and categorization. These themes will be continuously reviewed and refined to ensure they authentically reflect the underlying meanings in the data.

3. Pattern Matching:

Pattern matching is a technique used to compare empirical data with theoretical propositions or expected patterns. By matching the patterns identified in the data with the hypotheses or propositions outlined in the conceptual framework, the study can assess the consistency and validity of the findings. This technique helps to link the data analysis to the research questions and hypotheses.

4. Explanation Building:

Explanation building is an iterative process of developing a narrative that explains the findings of the study. This process entails developing a cohesive narrative that connects the identified themes and patterns to the study's research questions and underlying theoretical framework. The goal is to provide a detailed and plausible explanation of how and why certain government policies and initiatives have impacted the Israeli startup ecosystem.

5. Data Validation:

To strengthen the credibility and validity of the findings, this study adopts a cross-verification approach by incorporating multiple data sources and methods. Insights obtained from expert interviews will be compared against secondary materials, including government reports, academic literature, and industry publications. This multi-source strategy ensures that key findings are supported by evidence from diverse perspectives, enhancing the overall robustness of the analysis.

3.4.2 Framework for Analyzing Interview Data

The analysis of interview data will follow a structured framework to ensure a systematic and thorough examination of the insights provided by the experts. This framework includes several key steps:

1. Data Preparation:

- **Transcription:** Interviews will be transcribed verbatim to create a detailed and accurate record of the conversations.
- **Data Cleaning:** Transcripts will be reviewed and cleaned to remove any irrelevant information and ensure consistency.

2. Initial Coding:

- **Open Coding:** Each transcript will be examined line by line, with initial codes assigned to text segments that align with the study's research questions. These codes will serve to capture significant ideas, recurring concepts, and emerging thematic patterns within the data.
- **Codebook Development:** A codebook will be developed to document the codes and their definitions. This will serve as a reference to ensure consistency in coding across all transcripts.

3. Axial Coding:

- **Category Formation:** Codes will be grouped into categories based on their relationships and commonalities. These categories represent higher-level themes that capture broader patterns in the data.
- **Subcategory Development:** Subcategories will be developed within each main category to offer a more detailed and nuanced interpretation of the emerging themes.

4. Thematic Analysis:

- **Theme Identification:** Themes will be derived through an analysis of the relationships between categories and subcategories, serving as the primary analytical constructs that encapsulate the study's core insights and findings.
- **Theme Refinement:** Themes will be refined through an iterative process of analysis and review to ensure they accurately capture the essence of the data.

5. Interpretation and Explanation:

- **Narrative Construction:** A narrative will be constructed to explain the findings of the study. This narrative will link the themes to the research questions and theoretical framework, providing a detailed and coherent explanation of the impact of government policies on the Israeli startup ecosystem.
- **Linking to Propositions:** The findings will be compared with the theoretical propositions outlined in the conceptual framework. This will involve assessing the extent to which the data supports or contradicts the hypotheses and developing explanations for any discrepancies.

6. Triangulation and Validation:

- **Cross-Verification:** The findings from the interview data will be cross-verified with secondary data sources to ensure their validity and reliability. This triangulation process will help to corroborate the findings and enhance their credibility.
- **Member Checking:** Where feasible, member checking will be conducted by sharing the findings with the interview participants to seek their feedback and validation. This helps to ensure that the interpretations accurately reflect the perspectives of the experts.

By following this structured framework, the study will ensure a rigorous and comprehensive analysis of the interview data. The combination of coding, thematic analysis, pattern matching, explanation building, and triangulation will provide a robust basis for understanding the role of government policies in nurturing the Israeli startup ecosystem.

3.5 Validity and Reliability

Establishing reliability and validity is essential to ensuring the overall credibility and trustworthiness of this research. Given the exploratory nature of this study, methodological rigor was achieved through a combination of triangulation, expert validation, systematic data verification, and transparent documentation. This section outlines the key strategies employed to enhance credibility, dependability, and transferability in the study of Israel's government policies and their impact on the startup ecosystem.

3.5.1 Validity: Establishing Credibility and Trustworthiness

In qualitative research, validity refers to the accuracy and credibility of findings. Unlike quantitative research, where validity is often measured statistically, qualitative validity depends on how well the study captures the phenomenon being investigated (Yin, 2018). This study ensures validity through data triangulation, expert validation, and systematic theoretical grounding.

Triangulation: Strengthening Internal and Construct Validity

Triangulation is a widely used technique in qualitative research that enhances credibility by cross-verifying data from multiple sources (Patton, 2015). This study employed three forms of triangulation:

- **Methodological triangulation:** Multiple research methods—including expert interviews, policy document analysis, and government reports—were used to provide a comprehensive and multi-dimensional view of Israel’s startup policies.
- **Data triangulation:** Insights were gathered from diverse stakeholders, including entrepreneurs, venture capitalists, and policymakers, ensuring that findings are not biased toward a single perspective.
- **Theoretical triangulation:** The study applies Schumpeterian Innovation Theory, Resource-Based View, and Institutional Theory to analyze government policies from different analytical perspectives, increasing conceptual validity.

By integrating multiple data sources and theoretical perspectives, the study minimizes subjectivity and enhances construct validity, ensuring that findings are robust and well-supported.

Expert Validation and Member Checking

To further strengthen validity, member checking was conducted by sharing preliminary findings with selected interview participants. This process ensured that interpretations accurately reflected expert perspectives and allowed for feedback that refined and strengthened the analysis (Lincoln & Guba, 1985). Expert validation was particularly important in confirming the relevance of themes identified in qualitative coding, as well as ensuring that policy interpretations aligned with real-world applications.

Addressing Construct, Internal, and External Validity

- **Construct Validity:** Ensured by using multiple data sources, a clear conceptual framework, and established theories in entrepreneurship and public policy (Yin, 2018).
- **Internal Validity:** Strengthened through pattern matching (comparing empirical data with theoretical expectations) and explanation building, which iteratively refines findings through theory-driven analysis.

- External Validity: Addressed using analytical generalization—comparing Israeli policies with global startup ecosystems to identify broader implications (Yin, 2018).

3.5.2 Reliability: Ensuring Consistency and Reproducibility

Reliability in qualitative research refers to the consistency and dependability of findings (Gibbs, 2007). This study implemented multiple strategies to minimize researcher bias and ensure that results can be replicated in future studies.

1. Case Study Protocol and Systematic Data Collection

A detailed case study protocol was established to standardize the research process. This included:

- Predefined procedures for conducting interviews, transcribing responses, and coding qualitative data.
- Structured interview guides to ensure consistency in questioning across all participants.
- Clear data analysis frameworks to ensure systematic and unbiased coding of qualitative data.

Following this protocol enhances transparency and replicability, key elements of qualitative research reliability (Yin, 2018).

2. Peer Review and Expert Feedback

To enhance reliability, peer review was conducted by independent researchers who assessed the research design, coding accuracy, and findings. External feedback helped identify potential biases or inconsistencies in the analysis (Patton, 2015).

3. Data Triangulation and Cross-Verification

As discussed under validity, triangulation also plays a crucial role in ensuring reliability by cross-verifying insights across different data sources. By comparing government reports, expert interviews, and academic studies, the study mitigates individual biases and increases the trustworthiness of the findings.

4. Detailed Documentation and Audit Trail

To allow for replicability, the study maintains a comprehensive audit trail, documenting:

- Interview transcripts and coding decisions, ensuring transparency in thematic analysis.
- Data analysis procedures, making it possible for future researchers to retrace steps and verify interpretations.
- Revisions made based on expert feedback, ensuring that findings accurately reflect the research problem.

5. Inter-Coder Reliability (If Multiple Researchers Were Involved)

Where applicable, inter-coder reliability was evaluated by having multiple researchers independently code a selected subset of interview transcripts. The resulting codes were then compared, and any discrepancies were resolved through discussion and consensus-building, thereby enhancing the consistency and rigor of the thematic analysis (Saldaña, 2016).

Conclusion: Strengthening Research Credibility

By employing triangulation, expert validation, peer review, and systematic documentation, this study ensures high standards of validity and reliability. While qualitative research cannot achieve the statistical generalizability of quantitative studies, the rigorous methodological approach taken here enhances the credibility, consistency, and applicability of the findings. These research design principles strengthen confidence in the study's conclusions and provide a robust foundation for future research on government policies and entrepreneurial ecosystems.

4. Empirical Analysis of Israeli Government Policies and Their Impact on the Startup Ecosystem

This chapter analyzes key government programs and initiatives within the context of the theoretical models introduced in Chapter 2.5. Each subsection connects the policy instruments to their potential impact on startup formation, as derived from both academic literature and expert perspectives.

The Israeli government's active role in fostering innovation has been widely credited as a key driver of the country's emergence as a global startup hub. Unlike market-driven ecosystems like Silicon Valley, Israel has embraced a state-led approach that strategically deploys public funds, regulatory incentives, and infrastructure development to stimulate entrepreneurial activity. This section critically analyzes the effectiveness, strengths, and shortcomings of these government interventions, assessing their impact on startup growth, venture capital development, and long-term sustainability.

4.1 The Yozma Initiative: Transforming Israel's Venture Capital Landscape

A defining moment in Israel's startup evolution was the launch of the Yozma Program in 1993, which significantly shaped the country's venture capital industry. Before Yozma, Israel had very limited access to venture funding, with startups largely dependent on government grants or bank loans. Recognizing the need for a robust private investment ecosystem, the government introduced a hybrid funding model that matched public and private capital to encourage venture capital firms to invest in early-stage Israeli startups.

Within just a decade, the Yozma initiative had stimulated a 600% increase in available venture capital, leading to the establishment of over 40 private VC firms by the early 2000s (Avnimelech & Teubal, 2006). The program's success was driven by its ability to attract foreign investors, particularly from the United States, who played a crucial role in scaling Israeli startups for global markets. Companies that benefited from Yozma's funding pipeline—such as Mobileye, Waze, and Check Point Software—eventually became industry leaders, generating substantial economic returns.

Despite these achievements, the long-term impact of Yozma presents both strengths and challenges. On the one hand, it transformed Israel into a high-tech powerhouse, embedding venture capital as a critical element of the ecosystem. On the other hand, it also contributed to an overconcentration of investment in a narrow set of industries, primarily cybersecurity, fintech, and AI. This has led to concerns that sectors such as agritech, cleantech, and social entrepreneurship remain underfunded due to their longer development cycles and lower short-term returns (Aharon, 2019).

Furthermore, while Yozma facilitated capital inflows, it did not fully address barriers to later-stage funding. Many Israeli startups still struggle to secure growth-stage investments, often choosing to relocate to markets like the U.S. or Europe in search of better funding opportunities (Feldman, 2014). This funding gap underscores the need for additional policy measures to bridge the transition from early-stage to scale-up investment, ensuring that more Israeli startups can remain competitive globally.

4.2 The Israel Innovation Authority and the Expansion of R&D Funding

As venture capital activity increased, the Israeli government shifted its focus to strengthening research and development (R&D) as a key pillar of innovation. The Israel Innovation Authority (IIA), has been a foundational element in these efforts. The IIA operates multiple funding programs that provide non-dilutive grants to startups engaging in cutting-edge technology development, reducing financial risk for entrepreneurs working on high-risk, high-reward projects.

Between 2016 and 2022, the IIA provided direct funding to over 3,500 projects, with a particular emphasis on artificial intelligence, medical technology, and defense-related innovations (OECD, 2022; Trajtenberg, 2002). One of the most notable impacts of these grants is their ability to de-risk innovation, enabling Israeli startups to experiment with emerging technologies before seeking private investment. Startups that have benefited from IIA funding often report higher success rates in securing follow-up investments, with studies indicating that 73% of IIA-backed startups obtain additional private funding within two years of receiving grants.

However, the IIA's funding model also presents challenges. The majority of grants are directed toward deep-tech and software-driven startups, leaving industries such as education technology, cultural innovation, and consumer-focused startups underfunded (Aharon, 2019). Furthermore, bureaucratic inefficiencies within the IIA have been criticized for delayed funding approvals and rigid grant structures that limit flexibility in resource allocation (Trajtenberg, 2002). While the IIA remains a cornerstone of Israeli startup policy, greater adaptability in funding allocation and an expansion into **non-tech industries** would enhance its overall impact.

4.2.1 Outcomes of Key Government Initiatives

Case Study: Yozma Initiative and Startup Growth

The Yozma initiative, launched in 1993, played a pivotal role in establishing Israel's venture capital ecosystem. By providing matching funds and incentivizing private investment, Yozma enabled startups to secure critical funding at various stages of growth. The following graph illustrates the funding milestones for two representative startups supported by Yozma.

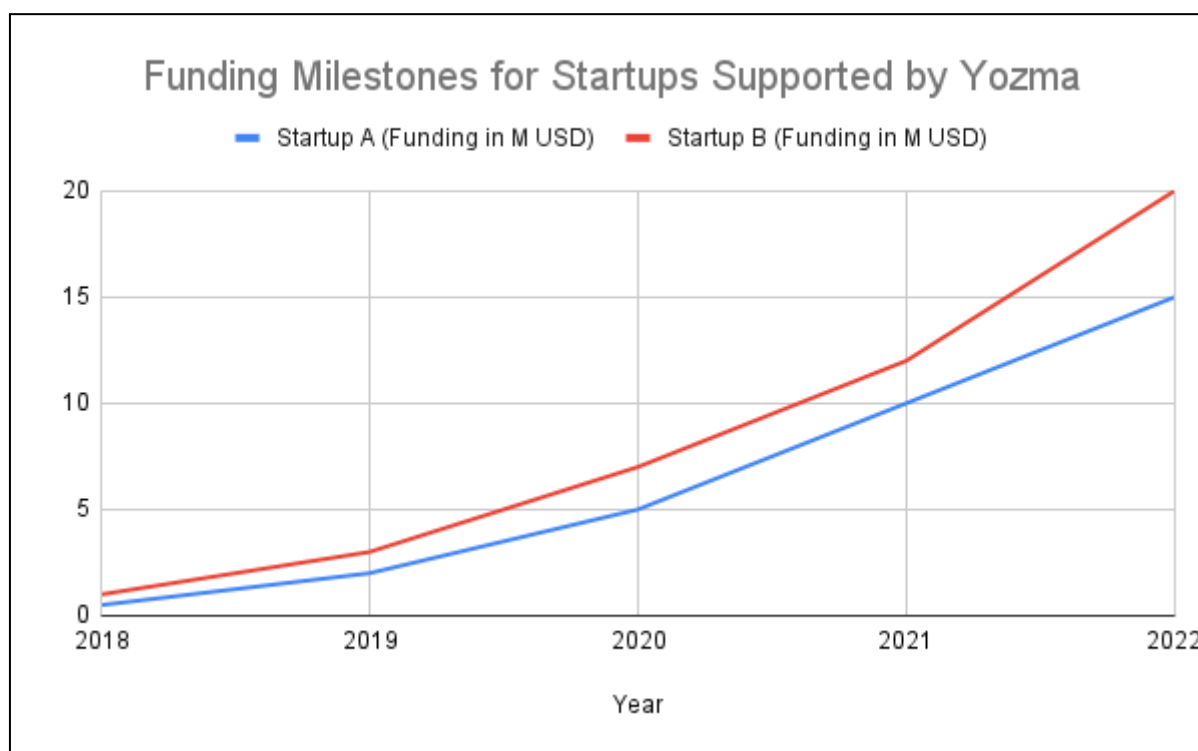


Figure 4.2: Funding Milestones for Startups Supported by Yozma

As shown in Figure 4.2, both startups demonstrated significant funding growth after initial seed rounds. Startup A, starting with \$0.5M in 2018, scaled rapidly to \$15M by 2022, reflecting Yozma's success in attracting follow-on private investments. Startup B achieved similar milestones, reaching \$20M by 2022. These trajectories highlight Yozma's effectiveness in catalyzing venture funding and supporting scalable business models.

4.3 The Technological Incubators Program: Supporting Early-Stage Startups

Recognizing the need for early-stage support, the Israeli government established the Technological Incubators Program, designed to nurture startups in their formative years. These

incubators provide workspace, mentorship, funding, and networking opportunities, effectively reducing barriers to entry for aspiring entrepreneurs.

Since its inception, the program has supported over 2,000 startups (OECD, 2018), with an average five-year survival rate of 52% (Schwartz & Bar-El, 2015), a figure that surpasses global benchmarks. Many of Israel's most successful tech firms, including SolarEdge and OrCam, originated within these incubators, demonstrating their role in bridging the gap between research and commercialization.

Despite these successes, the program has been criticized for regional disparities, as 85% of incubators are concentrated in Tel Aviv, while peripheral regions like the Negev and Galilee receive limited support (OECD, 2018). This urban bias has led to uneven economic development, limiting the growth potential of startups outside major tech hubs. Addressing this imbalance through regionally focused incentives and decentralized incubator funding could increase nationwide entrepreneurial participation.

4.4 Regulatory Reforms and the Ease of Doing Business for Startups

Beyond financial interventions, the Israeli government has implemented various regulatory reforms to streamline business operations. These include:

- The Startup Fast-Track Visa Program (2017): Enables foreign entrepreneurs to establish and operate a business in Israel within six months, enhancing international collaboration.
- R&D Tax Incentives: Allows high-tech firms to claim up to 40% in corporate tax reductions, incentivizing reinvestment in innovation.
- Digital Company Registration (2021): Simplified company formation procedures, reducing the average registration time from 30 days to 14 days (Aharon, 2019).

While these measures have improved Israel's global ranking in ease of doing business, challenges persist. The regulatory landscape remains fragmented, with different agencies managing grants, tax incentives, and startup permits separately, leading to inefficiencies. Entrepreneurs report difficulties in navigating bureaucratic procedures, particularly when dealing with government funding applications (Trajtenberg, 2002).

4.5 Evaluating the Overall Effectiveness of Israeli Government Policies

Overall, the Israeli government's approach to startup ecosystem development has been highly effective in fostering high-tech innovation, attracting foreign investment, and creating a globally competitive startup landscape. The Yozma initiative laid the foundation for a thriving venture capital industry, while the Israel Innovation Authority and incubator programs have continued to support entrepreneurial growth. However, key challenges remain:

- Overconcentration in high-tech industries, with limited support for sectors outside of cybersecurity, fintech, and AI.
- Regional disparities, where Tel Aviv dominates while peripheral regions receive limited investment.
- A lack of follow-on funding for later-stage startups, leading to higher rates of relocation to foreign markets.

To address these challenges, future policy efforts should focus on expanding funding diversity, streamlining bureaucratic processes, and encouraging economic decentralization. By making these adjustments, Israel can sustain its position as a global leader in innovation while ensuring inclusive and balanced startup growth.

5. Insights from Expert Interviews: Perspectives on the Israeli Startup Environment

To achieve an in-depth insight into the impact of government policies on Israel's startup ecosystem, interviews were conducted with a diverse group of experts, including entrepreneurs, venture capital investors, policy analysts, and government representatives. These discussions provided firsthand insights into the effectiveness of existing policies, ongoing challenges, and

opportunities for improvement. Three dominant themes emerged from these interviews: funding accessibility, regulatory inefficiencies, and collaboration opportunities. The expert statements presented here are interpreted in light of the theoretical propositions developed in Chapter 2.5 and the policy context analyzed in Chapter 4. This alignment forms the foundation for the comparative discussion in Chapter 6.

5.1 Selection of Experts

The selection of experts followed a purposive sampling approach aimed at capturing diverse, practice-based perspectives on the Israeli startup ecosystem. Interviewees were selected based on their direct involvement in entrepreneurial activity, investment, or ecosystem development. The sample included experienced startup founders from various sectors, venture capital professionals, and investors with firsthand knowledge of the Israeli innovation landscape. This composition ensured a multidimensional understanding of how government policies influence startup growth, capital access, and innovation trajectories. A total of 9 semi-structured interviews were conducted, each lasting approximately 30 minutes, either in person or via video conferencing. All interviews were conducted between (October 2024 and February 2025), recorded with consent, and transcribed for thematic analysis. This selection strategy strengthened the contextual validity and relevance of the qualitative insights presented in this chapter.

5.2 Accessibility of Funding: Strengths and Challenges

A recurring theme among interviewees was the critical role of government-backed funding in enabling early-stage startups to thrive. The Yozma Initiative and Israel Innovation Authority (IIA) grants were frequently cited as essential mechanisms for de-risking high-tech entrepreneurship. As also reflected in public reports by the IIA (2023) and OECD (2022), these instruments have contributed significantly to reducing the financial risk for entrepreneurs and catalyzing early-stage innovation in Israel.

Many experts agreed that Israel's early-stage funding environment is highly favorable, with one venture capitalist noting:

“Unlike other ecosystems where early-stage funding is scarce, the Israeli government plays an active role in ensuring that even first-time founders have access to capital. The matching fund model encourages private VC participation, which significantly accelerates startup growth.”

However, a significant limitation identified by experts is the lack of later-stage funding, which forces many startups to relocate abroad to secure Series B and C investments. One startup founder emphasized:

“Israeli startups are great at securing seed funding, but when it comes to scaling internationally, the funding landscape becomes far more challenging. Many of my peers have had to move operations to the U.S. or Europe to attract the kind of capital needed for global expansion.”

Additionally, several interviewees highlighted an overconcentration of funding in specific high-tech verticals such as cybersecurity, fintech, and AI, leaving sectors like agritech, edtech, and consumer tech underfunded. According to a government policy analyst:

“There is an implicit bias toward tech-driven startups because they promise high returns. Unfortunately, this means that socially impactful startups or those operating in longer development cycles struggle to get the same level of government support.”

5.3 Regulatory Inefficiencies and Bureaucratic Barriers

While Israel is often regarded as a business-friendly country, several experts expressed concerns about bureaucratic inefficiencies that can slow down startup operations. A startup founder shared their frustration:

“Setting up a company has become easier over the years, but dealing with tax incentives, compliance issues, and cross-border regulations is still a headache. There is no single streamlined platform where startups can manage their regulatory requirements.”

A venture capitalist further elaborated:

“A major issue is the lack of coordination between different government agencies. While the Israel Innovation Authority manages grants, the Ministry of Finance oversees tax incentives, and the Ministry of Economy handles international trade. This fragmentation creates unnecessary administrative delays.”

Another challenge raised by multiple interviewees is the difficulty in securing work visas for international talent. Although the Startup Fast-Track Visa Program was introduced in 2017 to facilitate easier entry for foreign entrepreneurs, its implementation has been slow and inconsistent. A policy expert explained:

“Israel’s talent pool is strong, but startups need global expertise to scale. The visa process is supposed to be fast-tracked, yet we’ve seen cases where approvals take months, discouraging international founders from setting up in Israel.”

5.4 Collaboration Opportunities and Ecosystem Gaps

Collaboration within the Israeli startup ecosystem is one of its biggest strengths, as noted by several experts. The close-knit nature of the ecosystem, fostered by military training programs such as Unit 8200, has created a culture of mentorship and knowledge-sharing. One entrepreneur described it as follows:

“If you’re a founder in Israel, you’re never more than two degrees away from someone who has built, scaled, or exited a startup. The level of accessibility to experienced mentors is unmatched.”

However, despite the strong culture of collaboration, there are notable gaps in partnerships between startups and traditional industries such as manufacturing and agriculture. A policy researcher pointed out:

“Tech startups thrive in Israel, but there’s an innovation disconnect between the startup world and traditional sectors. Unlike Germany, where industrial firms actively collaborate with startups, Israeli corporations are still hesitant to integrate new technologies at scale.”

Another key area for improvement is international collaboration, particularly in securing partnerships for market expansion. A startup founder shared:

“The Israeli government has been great at facilitating trade missions and delegations, but startups need more structured programs to help them break into global markets outside Europe and the U.S. —Latin America, Africa, and Asia remain untapped opportunities.”

6. Discussion: Synthesizing Expert Insights and Policy Implications

The propositions introduced in Section 2.5.2 serve as an analytical lens for interpreting the empirical findings derived from the expert interviews presented in Chapter 5. These propositions, reflect only those assumptions that are directly supported by the qualitative data collected. This chapter systematically relates each of the four validated propositions to the practical insights gathered from the expert interviews, highlighting their policy implications and relevance to the Israeli startup ecosystem.

The discussion begins with Proposition 1, which addresses the role of early-stage financial support in fostering startup formation. The structure of this chapter follows the four validated propositions formulated in Chapter 2.5.2. Each proposition is discussed individually, with empirical validation from the expert interviews in Chapter 5 and policy data from Chapter 4.

6.1 Proposition 1: Government Financial Support, Early-Stage Startup Development

A dominant theme across expert interviews was the decisive role of government financial support in fostering the early stages of startup development in Israel. Several interviewees emphasized that state-backed programs significantly reduce the entry barriers for entrepreneurs and de-risk early innovation efforts, particularly in capital-intensive sectors such as deep tech and biotechnology.

One of the most frequently cited initiatives was the **Yozma Program**, launched in the 1990s to jumpstart Israel's venture capital landscape. By offering tax incentives and government matching to private investors, Yozma successfully mobilized early-stage funding and drew international attention to the emerging Israeli tech sector. According to multiple interviewees, this program was instrumental in laying the foundation for today's entrepreneurial activity.

In addition, the **Israel Innovation Authority (IIA)** was consistently highlighted as a cornerstone of public innovation policy. Its grant-based funding schemes enable early-stage startups to conduct R&D and prototype development without immediate pressure from equity investors. As one startup founder noted:

“Without the IIA grant, we wouldn't have made it through our first product cycle. It bought us time to iterate.”

These findings provide strong support for **Proposition 1**, which asserts that **financial support through grants and subsidies positively impacts startup growth and sustainability**. The

emphasis in expert narratives was not only on capital availability, but also on the **non-dilutive** nature of such funding, which allows entrepreneurs to retain control during their most vulnerable phase.

This aligns closely with **Schumpeterian Innovation Theory**, which suggests that government-driven disruption — particularly in high-risk, high-reward sectors — is essential to stimulate early innovation. The empirical evidence from Israel affirms that public financial support mechanisms play a catalytic role in seeding entrepreneurial activity, especially in ecosystems that lack mature capital markets for early ventures. This is further supported by secondary data from the Israel Innovation Authority (2023) and OECD (2022), which highlight the effectiveness of early-stage funding instruments.

Policy Implications:

- Expand non-dilutive grant programs, especially for deep tech, biotech, and underserved sectors.
- Increase the transparency and accessibility of funding opportunities through a centralized portal.
- Develop more public-private early-stage investment models inspired by the Yozma Initiative.

6.2 Proposition 2: Regulatory Efficiency and Business Formation

Another prominent theme raised in nearly all interviews is the burden of regulatory inefficiencies, despite the presence of some recent reforms. Entrepreneurs consistently noted that administrative complexity, particularly when dealing with cross-border activities, IP protections, or tax incentives, can hinder the startup process. Although Israel has implemented initiatives such as fast-track visa programs and digital business registration platforms, these measures are perceived as insufficiently integrated or inconsistently applied.

These reflections validate **Proposition 2**, which links a favorable regulatory environment with ease of doing business and entrepreneurial growth. While Israel's regulatory framework has improved over the years, the expert interviews underscore the need for deeper structural reforms to reduce bureaucracy and increase transparency. The sentiment among founders and advisors is that streamlined regulation is not just a facilitator of startup creation, but also a necessary

condition for efficient scaling and global competitiveness. OECD (2022) similarly identifies regulatory inefficiency as a key constraint on Israel's startup scalability.

Policy Implications:

- Streamline bureaucratic processes by consolidating startup-related services into a single digital platform.
- Expand and accelerate the Startup Fast-Track Visa Program to attract global talent.
- Introduce regulatory sandboxes that allow innovation-friendly experimentation, particularly in tech-intensive sectors.

6.3 Proposition 3: Growth-Stage Capital and VC Access

While Israel's startup ecosystem is globally recognized for its robust early-stage support, a recurring concern among interviewees was the persistent lack of late-stage funding mechanisms. This funding gap often restricts startups from scaling beyond product-market fit and inhibits their ability to compete globally without relocating.

Multiple experts emphasized that **Israel has become highly efficient at nurturing seed- and Series A-stage startups**, largely due to instruments like the Israel Innovation Authority (IIA) and angel/early VC networks. However, as one policy advisor noted:

“We are excellent at getting startups off the ground, but poor at helping them scale.”

This sentiment reflects a widespread view that the **ecosystem is bottlenecked** at the post-Series A level. Several interviewees described how promising companies are forced to establish headquarters or holding companies abroad — particularly in the U.S. — to access growth capital, enter new markets, and attract strategic investors.

These insights directly validate **Proposition 3**, which asserts that **a robust and diverse venture capital industry** is critical for long-term startup growth and sustainability. The absence of such infrastructure domestically limits Israel's ability to retain successful scale-ups and risks eroding its competitive edge in high-growth innovation sectors.

Policy implications arising from this include the need for:

- Dedicated **growth-stage co-investment funds** backed by the state;

- **Public-private late-stage VC vehicles;**
- **Export and internationalization financing instruments** tailored for scaling ventures.

As discussed in Chapter 7, these mid-term policy interventions are vital to closing the scale-up gap and securing long-term ecosystem resilience.

6.4 Proposition 4: Culture, Networks, and Community

The Israeli entrepreneurial culture was repeatedly praised by experts as one of the ecosystem's defining strengths. Interviewees described a highly collaborative environment in which mentorship is accessible, peer learning is encouraged, and risk-taking is socially acceptable—even in the face of failure. Several respondents referred to the influence of elite military units such as Unit 8200, which not only serve as training grounds for technological expertise but also cultivate informal founder networks that continue well beyond military service.

These insights confirm the validity of **Proposition 4**, which emphasizes the importance of a strong entrepreneurial culture and community. Unlike ecosystems where competition dominates and failure is stigmatized, Israeli startups benefit from a culture of openness, experimentation, and continuous feedback. This cultural dimension, although less quantifiable than financial metrics or regulatory reforms, emerged as a vital success factor in the interviews. It reinforces the notion that policy alone is insufficient without an enabling social context that nurtures ambition and resilience.

Policy Implications:

- Institutionalize mentorship and peer-learning frameworks within accelerator and incubator programs.
- Support military-to-startup transition initiatives to formalize informal founder networks.
- Launch national campaigns to normalize entrepreneurial risk-taking and failure as part of the innovation journey.

6.5 Synthesis of Key Insights and Theoretical Alignment

The expert interviews and secondary data presented in this thesis provide a comprehensive perspective on how Israeli government policies have shaped the startup ecosystem. The analysis

of the four validated propositions reveals distinct but interconnected areas of impact, each aligned with specific theoretical frameworks introduced in Chapter 2.

- **Proposition 1**, addressing government financial support, aligns with **Schumpeterian Innovation Theory**, which frames state-driven intervention as a driver of disruptive innovation and market transformation.
- **Proposition 2**, focused on regulatory efficiency, draws on **Institutional Theory**, highlighting the role of predictable and transparent rules in enabling entrepreneurial activity.
- **Proposition 3**, which emphasizes the importance of growth-stage capital, reinforces the **entrepreneurial ecosystem model** (Isenberg, 2010) by illustrating a critical gap in the systemic support needed for scale-ups.
- **Proposition 4**, related to entrepreneurial culture and networks, reflects the **sociological dimension** of ecosystems, where informal support structures and cultural values play a key enabling role.

Together, these insights confirm that while Israel has succeeded in catalyzing early-stage entrepreneurship, **systemic weaknesses persist** in the areas of scaling, regulatory streamlining, and inclusive funding mechanisms. These findings not only support existing academic models but also point toward the need for **dynamic, phased policy adjustments**, as outlined in the recommendations of Chapter 7.

This synthesis forms the foundation for the policy roadmap proposed in the next chapter and underscores the value of theory-informed, empirically grounded policy design in startup ecosystem development.

7. Conclusion and Recommendation

7.1 Summary of Key Findings

The policy recommendations presented in this chapter are derived from the key insights discussed in Chapter 6. They reflect the empirical alignment between expert perspectives and the theoretical propositions and are designed to address the structural gaps identified in the Israeli startup ecosystem.

Government funding has played a crucial role in fostering early-stage startups, providing the necessary financial support to help new ventures take off and innovate. Programs such as the Yozma Initiative and grants from the Israel Innovation Authority (IIA) have been particularly effective in mitigating financial risks for early-stage companies (Avnimelech & Teubal, 2006). However, despite this success in the initial phases, challenges remain in securing late-stage funding. Many startups struggle to attract sustained investment beyond their early development, limiting their ability to scale and compete on a global level (OECD, 2022; WIPO, 2023). Recent reports indicate that only 15% of Israeli startups secure Series C funding or later, compared to 35% in Silicon Valley (OECD, 2022). Addressing this gap in later-stage financing is essential to ensure long-term growth and stability within the startup ecosystem.

Regulatory inefficiencies further hinder the scalability of startups, particularly in areas such as business registration and labor laws. While recent reforms have streamlined some processes, bureaucratic hurdles continue to create obstacles for entrepreneurs. In 2021, Israel was ranked 35th in the World Bank's Ease of Doing Business Index, with key challenges identified as lengthy business registration procedures and rigid labor regulations (World Bank, 2021). Lengthy approval times, complex legal requirements, and rigid labor market regulations make it difficult for startups to expand efficiently. Simplifying these regulatory procedures and ensuring a more business-friendly environment would significantly enhance the ecosystem's ability to support high-growth startups (Breznitz & Ornston, 2013).

Additionally, the need for stronger structured collaboration mechanisms is evident, particularly in fostering partnerships with corporations and expanding access to international markets. While some initiatives exist to encourage cooperation between startups and larger companies, these efforts remain fragmented and lack a cohesive framework. Studies have shown that Israeli startups rely heavily on U.S. markets, with 60% of exits occurring through U.S. acquisitions (IIA, 2023). However, engagement with Asian markets, particularly China and India, remains underdeveloped in comparison to ecosystems like Singapore, which actively facilitates startup expansion through government-backed global acceleration programs (Wong et al., 2004). Strengthening these partnerships through structured programs and international expansion strategies would not only enhance knowledge-sharing and innovation but also improve the global competitiveness of startups.

7.2 Policy Recommendation

Israel's government-led startup policies have laid a strong foundation for early-stage innovation. However, as the ecosystem matures, new challenges have emerged around scaling, diversification, and internationalization. The recommendations presented are organized into short-term, mid-term, and long-term strategies. Each category is informed by empirical findings from expert interviews (Chapter 5), the thematic analysis (Chapter 6), and insights drawn from relevant secondary literature.

7.2.1 Short-Term Recommendations (0-2 years)

Derived from: Expert insights on bureaucracy and funding bias (Chapter 5.1 and 5.2); regulatory inefficiencies (Chapter 6.1.2); OECD (2022), World Bank (2021)

1. Streamline Business Registration and Regulatory Processes

Interviews revealed widespread frustration with administrative complexity and a lack of cross-agency coordination. A venture capitalist noted:

“Insufficient coordination among the Israel Innovation Authority, the Ministry of Finance, and the Ministry of Economy has led to procedural delays and administrative inefficiencies..”

→ This supports the recommendation for centralized digital portals and automated processes to simplify startup operations. These issues have also been identified in OECD regulatory reviews (OECD, 2022) and the World Bank Doing Business Index (2021), which cite Israel's fragmented bureaucracy as a key bottleneck.

2. Expand Funding Beyond High-Tech Industries

Several interviewees highlighted that current grant programs heavily favor deep-tech verticals, leaving social ventures and creative industries under-supported.

→ Aligns with findings in Chapter 6.1 and the call for more inclusive funding models. Supported by secondary data on sectoral imbalances (OECD, 2022).

3. Strengthen Tax Incentives for Foreign Direct Investment (FDI)

Expert feedback indicated a need for more competitive incentives to attract foreign VCs and corporate investors. These insights reflect international models like Singapore's Startup SG program (Wong et al., 2004) and underscore the need for co-investment schemes.

7.2.2 Mid-Term Recommendations (2-5 years)

Derived from: Gaps identified in Chapter 5.1, 5.3; discussion in Chapter 6.1 and 6.3; Avnimelech & Teubal (2006)

4. **Improve Startup Scaling Programs and Growth-Stage Funding**

Nearly all interviewees emphasized that Israel's funding ecosystem is heavily weighted toward early-stage startups. A policy advisor noted:

"We are excellent at getting startups off the ground, but poor at helping them scale."

→ Supports proposals for scale-up funds, loan guarantees, and export financing programs, as discussed in Chapter 6.1.

5. **Foster Corporate–Startup Partnerships and Open Innovation**

Experts acknowledged limited collaboration between startups and large enterprises, particularly outside the tech sector.

→ Recommendation for tax incentives, corporate accelerators, and national innovation hubs draws on both expert interviews and literature on ecosystem interdependence (Isenberg, 2010).

6. **Strengthen University Tech Transfer and Commercialization Models**

While not a dominant theme in all interviews, several experts flagged weak university-industry collaboration.

→ Supported by the findings of Chapter 6.1.3 and secondary sources on tech transfer underperformance in Israel (Aharon, 2019).

7.2.3 Long-Term Recommendations (5+ years)

Derived from: Chapter 5.3 (global expansion gaps), Chapter 6.3 (international scaling), and comparative policy literature (Wonglimpiyarat, 2016; OECD, 2020)

7. **Enhance Global Market Access Programs**

Experts stressed the need for structured internationalization efforts beyond U.S. markets.

One founder explained:

"We need more than delegations—we need embedded support to enter Asia and Latin America."

→ Recommendations draw from Singapore's Startup SG and soft-landing programs in global hubs.

8. Implement Startup-Specific Labor Law Reforms

Founders reported rigid labor laws as barriers to hiring and expansion. This issue was tied to global competition for talent.

→ This recommendation is grounded in insights from expert interviews (Chapter 6.2 and 6.3), where rigid labor regulations and bureaucratic complexity were frequently mentioned as growth barriers. These findings are further supported by international benchmarks for startup-friendly labor policies, as outlined by OECD (2020) and the World Bank (2021).

These recommendations are directly grounded in the empirical findings of this thesis and reflect a synthesis of expert interviews, secondary data, and theoretical perspectives. They offer a staged approach to policy reform, designed to address both immediate inefficiencies and long-term ecosystem sustainability.

7.2.4 Conclusion: Building a Sustainable and Inclusive Innovation Hub

By implementing a comprehensive set of short-term, mid-term, and long-term policy recommendations, Israel has the potential to transition from a startup-centric economy to a sustainable, innovation-driven global powerhouse. However, achieving this requires a multi-faceted policy approach that fosters a more balanced, inclusive, and globally integrated entrepreneurial ecosystem.

The next phase of growth will necessitate reducing regulatory bottlenecks to enhance the ease of doing business, ensuring that startups can operate with greater efficiency and fewer administrative burdens. In parallel, expanding funding opportunities beyond high-tech startups is critical to diversifying Israel's innovation landscape, allowing for greater development in creative industries, social enterprises, and sustainable ventures.

Furthermore, strengthening corporate-startup collaborations will play a pivotal role in accelerating commercialization and ensuring that emerging ventures benefit from established industry expertise, funding, and market access. Improving global market integration is equally important, as Israel's long-term economic resilience will depend on its ability to support scaling companies in expanding beyond domestic and regional markets.

Additionally, fostering an inclusive and diverse entrepreneurial ecosystem must remain a key priority. Addressing regional and demographic disparities—particularly in underrepresented regions and communities—will help unlock new sources of innovation and economic growth. Ensuring equitable access to funding, mentorship, and professional networks will contribute to a more holistic and sustainable startup ecosystem.

Through proactive policy adaptation, Israel can maintain its competitive edge in global innovation, attract sustained foreign investment, and create a resilient, dynamic entrepreneurial environment. The successful implementation of these policy recommendations will not only secure Israel's position as a leader in high-tech innovation but also establish it as a model for emerging startup ecosystems worldwide.

7.3 Limitations of the Study

Although this study offers meaningful insights into the influence of government policies on the development of Israel's startup ecosystem, it is important to acknowledge several limitations that may affect the scope and generalizability of the findings. First, the research relies on a qualitative case study design, which, while suitable for exploratory analysis and depth of understanding, inherently limits generalizability beyond the Israeli context. The findings reflect the particular historical, institutional, and economic conditions of Israel and may not be directly transferable to ecosystems with fundamentally different policy environments or market dynamics.

Second, the sample size for expert interviews, though deliberately chosen for its relevance and diversity, remains limited. The perspectives presented may not fully capture the views of all ecosystem stakeholders, particularly those from underrepresented regions or sectors such as social entrepreneurship, minority-led startups, or early-stage accelerators.

Third, the purposive sampling strategy, while methodologically appropriate for qualitative inquiry, introduces the possibility of selection bias, as it depends on researcher access and subjective judgment regarding expertise. Additionally, interview responses may be influenced by positionality or personal experiences, which, although valuable, may not always align with broader statistical trends.

Lastly, while secondary data was used to complement and triangulate expert perspectives, certain data points—especially regarding venture capital flows, policy implementation effectiveness,

and demographic inclusivity—remain subject to limitations in public reporting and may require further longitudinal or quantitative investigation.

Despite these constraints, the study offers a robust, theory-informed, and empirically grounded contribution to the understanding of government-driven startup ecosystems.

7.4 Final Thoughts

Israel's emergence as a leading global hub for startups is often credited to deliberate government interventions, a well-developed venture capital landscape, and a deeply embedded culture of innovation. The country has leveraged state-backed funding mechanisms, public-private partnerships, and proactive regulatory frameworks to nurture a high-tech economy that consistently ranks among the most innovative in the world (WIPO, 2023; OECD, 2022). However, as Israel's startup ecosystem matures, the next phase of growth will depend on how effectively it adapts to evolving global economic conditions, market demands, and structural challenges.

One of the most pressing challenges is the scalability of Israeli startups. While government policies have been successful in fostering early-stage entrepreneurship, a significant number of Israeli startups struggle to secure late-stage funding or expand beyond domestic and regional markets. Many scale-ups relocate operations abroad—particularly to the United States and Europe—due to better access to capital, larger consumer bases, and more favorable regulatory environments for global expansion (Feldman, 2014; OECD, 2022). Addressing this issue will require policy adjustments aimed at bridging the funding gap for growth-stage startups, expanding incentives for local and foreign investors, and facilitating stronger cross-border collaborations to help Israeli companies compete on the global stage.

Additionally, regulatory simplifications and a more business-friendly policy environment will be essential in ensuring that Israel remains competitive in attracting both domestic and international investment. Bureaucratic inefficiencies, fragmented regulatory oversight, and inconsistencies in tax and labor policies continue to create barriers for entrepreneurs. Streamlining administrative processes, improving inter-agency coordination, and modernizing regulations to accommodate emerging industries—such as artificial intelligence, clean technology, and fintech—will play a crucial role in enhancing ease of doing business and reducing friction in startup operations.

Beyond economic and regulatory concerns, Israel's long-term innovation success will also depend on enhancing inclusivity and diversity in its entrepreneurial ecosystem. Despite its reputation as a highly innovative nation, underrepresented groups—including Arab-Israeli, ultra-Orthodox, and female entrepreneurs—continue to face significant barriers in accessing funding, mentorship, and professional networks. Addressing these disparities through targeted funding programs, mentorship initiatives, and workforce development policies will not only contribute to a more equitable startup ecosystem but also unlock untapped potential that could further drive economic growth and innovation.

Finally, global integration will be a defining factor in Israel's future success as an innovation hub. As competition among global startup ecosystems intensifies, Israel must strengthen its international partnerships, expand market access for its startups, and foster collaboration with multinational corporations, research institutions, and foreign investors. This includes deepening ties with emerging markets, particularly in Asia, Latin America, and Africa, where Israeli technology and expertise can offer significant value. Additionally, fostering stronger connections between academia, government, and industry can help drive research commercialization and technological breakthroughs that sustain Israel's competitive edge.

By addressing these key challenges—scaling barriers, regulatory inefficiencies, inclusivity gaps, and global integration hurdles—Israel has the opportunity to not only sustain its position as a leading innovation hub but also set new benchmarks for how government-led policies can drive long-term entrepreneurial success. The lessons learned from Israel's experience can provide valuable insights for emerging startup ecosystems worldwide, reinforcing the critical role of dynamic policy adaptation, public-private collaboration, and inclusive economic strategies in fostering sustainable innovation.

As the global economic landscape continues to evolve, Israel stands at a pivotal moment—one that will determine whether its startup ecosystem remains a launchpad for early-stage ventures or evolves into a globally competitive hub for high-growth, long-term innovation. By making strategic policy adjustments and embracing a more inclusive, internationally integrated approach to entrepreneurship, Israel can solidify its status as a sustainable and resilient innovation leader (OECD, 2022; WIPO, 2023) for decades to come. This work thus contributes to the theoretical development and practice-oriented further development of public innovation policy.

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