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Israeli Crowdfunding: A Reflection of Its Entrepreneurial Culture

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An Introduction: The 'Prenumeranten' Phenomenon

The life story of Yisrael Haim of Belgrade illustrates a vivid picture of Jewish life in the eighteenth and nineteenth centuries. He fled to Vienna due to military struggles, where he was associated with the local aristocracy. During that time, he was familiarized with the *prenumeranten* (a term in Yiddish, literally meaning 'prior numbers'). The prenumeranten was a system used by Western European Jews. Back then, book production was costly, and authors were requested to pay one-third of the publishing costs

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in advance to the publishers. To collect the required amount, they used the prenumeranten scheme in which the author or other individuals on his behalf travelled to various Jewish communities, seeking to persuade people and establishments with a potential interest in the book to support it. These people and establishments were later recognized for their support by having their names printed in the volume's front matter as an acknowledgement in the book's first edition. Yisrael Haim used this system to publish a complete Ladino translation of the Bible (Bunis 1996). Thus, in the nineteenth century, the prenumeranten was a common system for publishing books, and as many as 8750 Jewish communities across Europe and North Africa participated in it (Cohen 1975).

As such, the prenumeranten system can be considered an early version of the modern crowdfunding concept. At the same time, the innovative approach for soliciting funds illustrates the cultural origins of the Jewish entrepreneurial spirit. Indeed, the crowdfunding concept found fertile ground in Israel, facilitated by a growing need for funds to support various types of ventures. These ventures were accompanied by the curiosity and inquisitiveness that is so typical of Israelis, which facilitated a generally welcoming approach to novel things and ideas. In the following section, we discuss the various aspects of the entrepreneurial ecosystem driving crowdfunding in Israel.

We begin by mapping the main components of the Israeli entrepreneurship ecosystem while discussing each in the context of crowdfunding and provide illustrative examples. We then continue by describing the crowdfunding scene in Israel, detailing its various types, and discussing the emerging trends. We conclude with implications and conclusions.

The Israeli Entrepreneurship Ecosystem

The Facets of Entrepreneurship and Innovation in Israel

The drivers of the Israeli crowdfunding are strongly associated with the country's entrepreneurship ecosystem. Israel has been an entrepreneurship leader for most of the last three decades. It is ranked fifth in the 2019

Bloomberg Innovation Index, tracking the most innovative countries (Jamrisko et al. 2019), and fifth among the developed countries in its entrepreneurial level, as reported in the Global Entrepreneurship Monitor (Menipaz and Avrahami 2019). Moreover, the country has been ranked fourth among the developed countries in the Global Entrepreneurial Spirit Index of the Global Entrepreneurship Monitor, indicating the strong entrepreneurial culture in the country (Menipaz and Avrahami 2019). The innovative culture of Israel is manifested in substantial governmental investments in research and development. Israel is the leading country among the OECD nations in gross domestic spending on R&D, with 4.5% of the country's GDP (as of 2017), and 17.4 researchers per 1000 employed (OECD 2018).

Israel is also an acknowledged leader in the tech industries (Engel and del-Palacio 2011), ending 2018 with \$6B of funding raised by 645 companies, an increase of 15% from the previous year, and a 140% increase over five years. In line with these funding numbers, the number of active Israeli high-tech companies has grown by 27% since 2014 (Korbet 2019). One manifestation of Israel's entrepreneurial nature is the number of exits among Israeli high-tech firms. During the last five years, 493 companies executed an exit strategy. Whereas these numbers are declining, with more companies preferring to remain private for longer (Korbet 2019), the *exit* term had long established itself in the Israeli culture. Recent studies discussed the duality surrounding the exit strategy, concluding that whereas previous research tends to address it as a failure, about one-third of the US entrepreneurs consider it to be a signal of success (Wennberg and DeTienne 2014). For the Israeli scene, these numbers are higher. For several years already, *exit* connotes success (Noff 2017).

In line with this burgeoning entrepreneurial environment, whereas only about 8% of the population is employed in the high-tech industry, one of every three Israelis testifies that they know someone who is an entrepreneur (Korbet 2019). Sixty-five per cent of Israelis view entrepreneurship as a desirable career choice, and over 80% of them think that it represents a high success status (GEM Team 2018). Indeed, it is common knowledge that whereas in the past, Jewish mothers longed for their sons to become doctors, nowadays they wish them to be entrepreneurs.

To summarize, these numbers primarily represent a strong belief in the Israeli entrepreneurship scene—by both internal and external stakeholders—defining Israel as a cluster of entrepreneurship and innovation (Engel and del-Palacio 2011). This scene provides fertile ground and growing demand for funding to support the vast and diverse initiatives incepting in Israel on a daily base, among which is crowdfunding.

The Israel Defense Forces (IDF) as a Facilitator of an Entrepreneurial Culture

One institution with an important role in facilitating the Israeli entrepreneurial culture is mandatory army service in the IDF. The majority of the Jewish Israelis between the ages of 18 and 21 are required to enlist to the IDF and are then assigned to an army occupation unit congruent with their education, experience, and abilities and in accordance with the army needs. In the IDF, individuals are thus defined by their army occupation, and this dynamic follows them to their civilian life and future occupations. Senor and Singer (2011) cited an Israeli venture capital investor that sums up the ethos of the IDF: “Israeli **soldiers** are not defined by rank; they are defined by what they are good at” (p. 50). As such, army service plays a much more meaningful role in forming the individual’s professional identity than any other factors, such as family origins.

Moreover, due to the various threats the country faces, IDF culture is grounded in innovative thinking and quickly learned lessons, joined by expressions of courage (Johnson 2011). This means, for example, that a combat unit should be able to perform multiple tasks, be flexible enough to react to changes and unexpected circumstances in the battle arena, and be empowered to improvise in the course of battle (Senor and Singer 2011). As such, the IDF culture reflects and promotes the Israeli entrepreneurial culture, characterized by delegating responsibilities to lower-ranking soldiers, operational flexibility, courage, and multi-tasking. Many Israeli entrepreneurs were imbued with these values during their army service and managed to apply them in the business world.

The army also serves as an integrative institution in Israeli society. In the army, many youngsters from varying backgrounds, such as new immigrants and people from diverse socioeconomic levels, serve together for two to three years in mandatory service and for an additional 20 years in annual reserve duty (Senor and Singer 2011). This integration, along with intense interaction, sometimes in life-threatening situations, ties army colleagues together. Consequently, high-tech firms are known to recruit soldiers from specific leading army tech units (Yablonko 2019).

In the context of crowdfunding, creators are driven by both a sense of comradeship, which provides assurance, and a feeling of ‘all is possible’, which allows them to defy convention and dare to pursue their goals and dreams. Many crowdfunding creators base their first wave of recruitment on their IDF buddies. For example, the donations-based campaign of *Together, we will win—Saving Ronen* was aimed towards funding a lifesaving treatment for a brain cancer patient. The campaign marketing stressed Ronen’s biography as an officer and commander in an elite commando unit in the IDF, having participated in bold operations. Many of his backers were former members of the unit. The funding goal was about \$285K, and it raised around \$336K—a success rate of 118%.

A further example is Indorz, a startup specializing in cannabis farming technology. The firm was founded by two graduates of Israel’s most renowned IDF tech unit, which serves as a facilitator of many Israeli startups. The firm launched two crowdfunding equity campaigns. In the first round, the company recruited \$1.4M in a combined round, comprising 382 investors supporting the company in an open public platform, and three anonymous angels investing through a dedicated platform. This campaign’s success rate was 325%. In a second round, the company recruited an additional \$556.5K from 656 investors, reflecting a 390% success rate. These successful funding campaigns can be traced, among other reasons, to the IDF unit where its founders served, a fact stressed in all the media coverage, as the unit is known for its graduates’ successes.

Crowdfunding as Entrepreneurial Spillover

As can be seen, entrepreneurship is well integrated in Israeli life. It receives substantial exposure in the news, and many academic institutions have incorporated it in one variety or another (technological/social) into their curriculum. This growing attention calls for an examination of the crowdfunding phenomenon as a variation of ‘entrepreneurial spillover’. This means that innovation-driven entrepreneurship can spill over to other fields. While entrepreneurial spillover has previously been used to illustrate how entrepreneurship is transferred across countries (Fairlie and Lofstrom 2015), a more recent study discussed this term as describing a diffusion of entrepreneurship between organizations of the same country (García-Cabrera et al. 2017). Based on the ‘entrepreneurial spillover’ effect, we may presume that by being exposed to entrepreneurship through various channels, crowdfunding stakeholders are ‘infected’ by it and ‘catch the bug’. In the context of crowdfunding, this spillover operates in two distinct ways. First, it generates an abundance of entrepreneurial initiatives that vary in scale and scope, hence allowing for different funding techniques to blossom alongside it. Second, it speeds up the market’s learning process, facilitating the adoption of these tested techniques, thus, driving fundraising volume.

The Story of the Beresheet Spacecraft as a Manifestation of the Role of Crowdfunding in the Israeli Entrepreneurial Ecosystem

This innovative culture can be better explained through a recent example: on April 11, 2019, the *Beresheet* (Hebrew for Genesis, a beginning), a spacecraft designed by the SpaceIL project, made a crash landing onto the moon. A day later, Morris Kahn, the leading investor of the project and president of SpaceIL, announced project Beresheet2, the next spacecraft to be sent to the moon (Etzion 2019). The case of Beresheet is a reflection of the story of the Israeli entrepreneurship culture. The Beresheet initiative began with three young engineers who dreamed of

participating in the Google Lunar X Prize challenge. Google's call was targeted at private teams, posing the challenge of building an unmanned spacecraft, land it on the moon, move it 500 metres across the lunar surface, and send high-definition pictures and video recordings back to Earth. The founders established the SpaceIL, a non-governmental agency, and launched an Indiegogo campaign in May 2014 to fund their quest. The campaign managed to raise over \$250K, exceeding its goal (118%). The awareness created by their inspiring dream and nurtured by the campaign attracted a community around the project numbering 250 volunteers, as well as leading scientists, engineers, opinion leaders, and organizations. Among these stakeholders were several prominent figures and institutions: the head of the Israel Space Agency, the president of the Weizmann Institute, the president of Tel-Aviv University, Israel Aerospace Industries, and Bezeq (Israel's leading communication company). In subsequent years, the founders managed to secure additional funding of \$100M from private investors (*angels*). Thus, it evolved into a joint project of SpaceIL and Israel Aerospace Industries (Goichman 2019). On February 22, 2019, the spacecraft began its journey to the moon. It received continual coverage in the Israeli media, and the Israeli public followed Beresheet journey with much pride and excitement, as Israel aspired to be the seventh nation to launch a spacecraft to the moon and the fourth nation to land on it (i24NEWS 2019).

Goichman (2019) sums up the story of the Beresheet endeavour by saying that the spacecraft is another demonstration of Israeli *chutzpah* (audacious and non-conformist behaviour). With leading nations investing billions of dollars in their space projects, Israel managed to reach a symbolic achievement by thinking 'out of the box', applying simple technologies, and flexibly exploiting opportunities. Thus, the story of Beresheet symbolizes the primary qualities that are driving Israel to become an entrepreneurship leader: daring to take risks, challenging conventions, thinking creatively, improvising, and remaining undaunted of failure along the way, along with communal support from the society in general. Beresheet's journey, therefore, is an exemplary manifestation of a crowdfunding campaign drawing on the meaningful elements of the Israeli entrepreneurial culture on its way to success. These elements will be elaborated next.

Elements of Israel's Entrepreneurial Culture and Their Manifestation in Crowdfunding Campaigns

A recent statement from an Israeli scientist sums up the Israeli entrepreneurship culture: “The courage to think, to improvise, the lack of fear to fail, the lack of fear to challenge conventions” (cited in Yair 2019, p. 25). These aspects—those that make Israel a leading entrepreneurship country—will be addressed in the following discussion. We will also demonstrate how these characteristics are manifested in Israeli crowdfunding campaigns.

Several factors contribute to the Israeli entrepreneurial culture. In an effort to provide readers with a comprehensive recipe of what makes Israel the *startup nation*, Senor and Singer (2011) identified several elements. Some of these elements can be linked to Israel's very establishment in 1948 and the immediate demand to absorb unprecedented numbers of immigrants from 100 different countries; other elements may relate to Israel's having to face ongoing military engagement and threats of terror (Rebhun and Waxman 2004). This combination of various challenges contributes to an innovative culture. In the following section, we describe the cultural elements that comprise the Israeli entrepreneurship ecosystem.

Collective Individualism

The roots of the modern State of Israel can be found in social-Zionistic movements established in the second half of the nineteenth century, which advanced values of egalitarian and collective society (Shindler 2013). The original collective nature of Israel can be found in valuing individuals who were committed to society at large and were willing to contribute to their communities unconditionally. Since then, Israel has transformed into a more individualistic culture, likely influenced by the US. However, the culture has evolved into a collective individualism (Weiss 2003). Weiss (2003) explained this amalgam of collective individualism in the country's unique geopolitical features, comprised of being small in size in comparison with neighbouring countries, joined by an ongoing sense of being bounded by hostile countries, and having to

face continuous military and terror threats. This combination has led to a strong sense of community, induced by feelings of isolation. The sense of community manifests itself in open social behaviour, including interaction between individuals of different hierarchical positions. For example, many serial entrepreneurs and venture capitalists freely offer their wisdom and experience to new entrepreneurs (Yin 2017), whereas senior professors and their graduate students maintain close informal relationships (Yair 2019). The communal nature of Israeli society is also manifested in 'one degree of separation'. According to Menipaz and Avrahami (2019), about 59% of Israelis know an entrepreneur, putting Israel in second place among the developed countries regarding familiarity with active entrepreneurs. Israelis feel free to contact anyone quickly, even those they do not know (Yin 2017).

An example of the strong collectivism of Israelis can be found in the *Bringing Yehuda Back Home* campaign. Yehuda is an IDF officer who was severely injured during his army service and had become disabled due to his injury. For him to return to reside near his parents' home, he required a custom-built unit designed to accommodate his physical condition. Friends of Yehuda's family launched a campaign aimed at collecting money to fund the construction of the unit. The original funding goal was set at about \$171.4K. The funding goal was reached in a matter of 18 hours. By the time the campaign ended, a sum of \$447.4K was collected from 8382 backers, a success rate of 261%. Some additional examples of successful donation campaigns from recent years include campaigns raising large sums of money to support families of terror victims (ranging from \$285.7K to \$571.4K). These examples demonstrate how social solidarity drive Israelis to quickly converge into a community of backers that are committed to support the campaign and continue to be involved in it.

Low Power Distance and Lack of Hierarchy

The egalitarian nature of Israeli society is also manifested in its low power distance (Hofstede 2001). Israel scores 13 out of 100 on Hofstede's power distance index, indicating a very low societal power distance across life stages and organizations. This low power distance is expressed in

expectations from employees to be autonomous and from managers to be accessible to their employees. Managers count on the experience of their employees, and employees expect to be consulted. Superiors often allow their subordinates to take the lead, with the latter freely challenging the thoughts and notions of the higher ranks (Yair 2019). Israelis are more likely to judge ideas by their content than by the status of their originator (Yair 2019). The workplace is characterized by an informal atmosphere and direct communication (Hofstede 1985). Israel's low power distance is congruent with Senor and Singer's (2011) assertions regarding Israeli culture as "class-less", and how this element surfaces in day-to-day business operations, with Israelis prone to challenge everything. Hofstede (1985) discussed at length how national and organizational institutions interact based on their value systems, claiming an indisputable link between the two. The low power distance indicator offers a clear example of how features of institutions at the national level merge into the business environment, thus, providing the business environment with a competitive advantage. Indeed, the inclination to continually challenge higher-ups and the lack of hierarchy lead to a sense of chaos that is facilitative of entrepreneurship (Nooteboom 1994). Examples for low power distance can be found on social media interactions between creators and backers, where backers leave questions and even phone numbers on the campaigns' social media pages (especially Facebook), requesting creators to phone them.

Israeli Chutzpah

Israel's egalitarian character, linked with an inclination to improvise and engage in courageous acts, as manifested in the Israel Defense Forces (IDF), can be related to the notion of *chutzpah*. In their book on the startup nation, Senor and Singer (2011) discussed the role of *chutzpah* at length as a trigger and facilitator of Israeli innovativeness. The term *chutzpah* is a Yiddish language expression, defined as a "laudable audacity or apparent effrontery that actually conceals a brave and often new approach to a subject or endeavour" (Schultz 2007, p. 209). A recent study by Efrat and Souchon (2016) explored the components of *chutzpah*, revealing it as a complex attitude encompassing creativity, spontaneity, originality, and boldness, on the one hand, and defiance, bluntness,

transgression, and irreverence for conventions, on the other. Overall, these components allow for challenging existing ideas and paradigms, out-of-the-box thinking, and bold actions (Yair 2019).

While only scant academic efforts have addressed chutzpah, the concept is pervasive in popular, non-academic publications, primarily indicating its having been well integrated in businesses' day-to-day operations (Tellez 2015). In the context of entrepreneurship, chutzpah carries a distinguishing mark of guts, risk-taking, and can-do behaviours, the fuel that drives entrepreneurs forward (Morato 2012; Yin 2017). Israelis are courageous and are prepared to try things that other cultures do not (Yair 2019). They are also known for their improvisation habits, enabling them to be undeterred by low budgets and sub-optimal facilities and equipment to reach their goals (Yair 2019). Yin (2017) summarizes, claiming that "When Israelis see an opportunity, they tend to take the plunge and start something 'quick and dirty' to see if it works".

An example of chutzpah manifestation in crowdfunding is the story of *Fashanga*, an Israeli online fashion mall. The company was established by two young Israeli entrepreneurs having no previous knowledge or experience in the local fashion scene. That did not stop them from establishing an online fashion mall company while launching an equity campaign that managed to raise over \$120K from eight investors. Following its initial success, the company launched a second equity-based campaign, raising over \$200K from 27 investors. According to one of the co-founders, they specialize in spotting opportunities; they noticed that Israel was lacking a local online mall that would enable Israelis to shop locally while enjoying the international experience. *Fashanga's* co-founders demonstrated boldness, daring, defiance, and creativity, all qualities associated with chutzpah.

Another example is *Just Beyond our Border—Israelis for the Syrian Children* campaign, which reflected irreverence for conventions. The campaign was initiated in 2016 by the Israeli humanitarian organization, 'Israeli Flying Aid', aiming to collect money for purchasing products and equipment for Syrian children. The campaign raised \$444.3K from 8227 backers. The campaign reflected Israeli chutzpah in lifting the curtain of secrecy of the humanitarian aid provided by Israel (through a special unit of the IDF established for this purpose) to Syrians who suffered through the ongoing civil war.

High Tolerance for Failure

Chutzpah behaviour is often accompanied by a high tolerance for failure. A recent report published by the Israel Venture Capital (IVC) research centre estimates that only 4 out of 100 startups succeed, and only 4 out of every 500 will survive independently (IVC 2017). Therefore, the likelihood of failure would appear to be considered as a deterrent, inhibiting entrepreneurs from initiating new ventures. Studies on entrepreneurship have reported that tolerance of failure promotes innovation and creativity, enabling the organization to take daring moves (Kowang et al. 2015). In the Israeli context, senior managers in its high-tech industry, as well as senior scientists, treat failure as having positive features, enabling one to derive benefit from the experience, as long as he or she gets back on their feet (Yair 2019; Yin 2017).

An example of high tolerance for failure is the *TLT Board* campaign. The founder launched a campaign to raise money for an electric skateboard before he had a product in his hand. This campaign was a component of the founder's participation in a reality TV show aimed at assisting beginning entrepreneurs in their projects. The founder was very doubtful about the campaign's prospects of success and did not expect much. The campaign funding goal was approximately \$2.9K, and it managed to raise around \$29.8K from only 40 backers, with a success rate of 1043%. Following the success of the first campaign conducted on the Israeli platform, Headstart, the founder launched an additional campaign at Indiegogo platform a year later that did not reach its funding goal. However, the founder did succeed in launching a company selling the TLT boards.

We end this section with two illustrative cases of successful crowdfunding campaigns that encompass the various aspects of the Israeli entrepreneurial ecosystem components. The first is *InnoCan Pharma's* equity campaign, and the second is a rewards-based campaign of *Chocolate Panda*.

InnoCan Pharma: A Successful Equity Campaign

Innocan Pharma is an early-stage pharmaceutical company, established by an experienced team of serial entrepreneurs and pharmaceutical experts, led by an ex-Teva-Israel CEO. The company was founded with

the goal of penetrating the worldwide pharmaceutical industry, exceeding USD 1.2 trillion revenues in 2018 (Mikulic 2019), with an innovative idea of embedding cannabis-based ingredients into dermatological products. The nature of the pharmaceutical industry has several components: it is highly regulated, long time-to-market, high cost of research and development, and is dominated by global enterprises, thus comprising a very high-risk endeavour. Nevertheless, InnoCan decided to penetrate this industry by harnessing innovative technologies into the research and development process of new pharmaceutical products and significantly shortening its Time-to-Market. The team peruse their idea and took a daring move, in establishing the entity, was enabled only by the Israeli entrepreneurial “can-do” culture and its high tolerance for failure behaviour (Kowang et al. 2015). This step was taken along with the perception that “even” failure has its positive aspects and can be seen as an opportunity for future learning (Yair 2019; Yin 2017).

On July 2018, InnoCan launched its crowdfunding campaign on the PipelBiz equity platform, with an initial funding goal of about \$285.7K. By mid-August, the company had reached an investment of approximately \$857.1K, thus achieving a success rate of 296%. The campaign was supported by 522 individuals, representing the full scope of the Israeli population. The campaign attracted investors from various geographical regions, backgrounds, and financial situations, investing sums ranging from \$143 to \$2.9K.

The company’s CEO characterized the six-week campaign as a perfectly structured and timed operation with the goal of reaching the pre-defined amount. During these six weeks, the company utilized its Facebook company page to raise awareness and to provide updates on its progress. The presence of an ex-Teva-Israel CEO in the company’s management team and the fact that the new company was developing new cannabis-based drugs generated huge interest and coverage in major Israeli online and offline media. The company leveraged its founders’ and management’s personal connections, experience, and reputation in order to raise awareness and attract the attention and trust of as many people as possible. Hundreds of Israelis, investors-to-be, ‘picked up the gauntlet’, and felt comfortable directly calling the company CEO’s personal phone to learn about the investment opportunity, the company’s future plans,

and prospects of success. During the six-week campaign, the company's CEO stated that she had placed 25 phone calls every day with potential investors in order to explain the company's strategy and gain their trust. This open social behaviour, illustrated by strangers querying the company's CEO on her personal phone for the sake of engaging in an informal direct communication, is an accurate depiction of Israeli's lack of hierarchy and low power distance culture behaviour.

One of the company's declared goals, during and after the campaign, was to progress in the direction of an initial public offering (IPO) in the Canadian Securities Exchange (CSE). Indeed, on September 2019, the company announced a successful IPO on the CSE under the symbol "Inno", transforming its 522 crowdfunding investors into shareholders in a publicly traded company (Accesswire 2019).

The crowdfunding campaign and the company's business plan to penetrate the highly risky pharmaceutical industry—accelerating from 'zero to a hundred in six seconds'—illustrate the uniqueness of the Israeli entrepreneurship scene: risk-taking, high tolerance for failure, and *cando* behaviour.

The InnoCan Pharma campaign was the first successful equity crowdfunding campaign to operate under the new Israeli regulation, enabling both early-stage entrepreneurs and crowd-investors to pursue their dreams. By utilizing this mechanism, the company raised the needed capital for its activity, with the crowd-investors given the opportunity to take part and invest in the establishment of the new entity, in the most democratic form. This campaign is still considered to be the most successful of its kind. Subsequently, many other entrepreneurial ventures have successfully raised funds through equity crowdfunding, supported by thousands of new non-accredited Israeli investors who wanted to be a part of the next big Israeli exit success story. Indeed, Wald et al. (2019) concluded that equity crowdfunding investors are driven by egotistical motivations, seeking the designation of 'entrepreneurship investor' as part of their resume.

Chocolate Panda: An Illustrative Case of a Successful Reward Campaign

Chocolate Panda is a vegan chocolate company. The company was established in 2015 by two vegan youngsters (who become a couple during the process), who decided to raise about \$8.5K to launch a home business to produce vegan chocolate. The couple had not intended to launch a company, rather saw it only as a hobby. However, the collective nature of Israeli society was manifested in this campaign through the enthusiasm of Israel's very active vegan community. As a result, the campaign went viral, and within a day, the funding goal was reached. By the end of the campaign, they raised about \$57.1K, achieving a remarkable success rate of 689%. The campaign was supported by 2394 backers and included 681 backers' comments.

Following the campaign's success, the creators, having considerable *chutzpa*, lacking the fear of failure, and having no previous experience in business administration, decided to establish a small boutique factory to produce vegan chocolate to replace their original plan of home production. They then set about producing seven different chocolate products, distributing them throughout the country (Lepler 2016).

After their initial success, the creators kept updating their backers through the Headstart platform as well as on their Facebook page. In 2017, they initiated an additional campaign, this time, for vegan chocolate snacks. The funding goal was about \$34.2K, achieving about \$89.2K, reflecting a 260% success rate. This second campaign was supported by 2101 backers, who wrote 538 comments. During this campaign, a boutique health food chain that was setting its sights on the vegan market decided to back the Chocolate Panda campaign, investing a considerable sum in return for the rights to launch the product's marketing.

The Chocolate Panda story demonstrates how a product that is associated with social values—in this case, the consumption of vegan food—can draw together an already-existing community of devotees that organized itself to boost its promotion and contribute to the campaign's success.

The Israeli Crowdfunding Scene

Development Over Time

Crowdfunding in Israel has become a viable option that is no longer limited to creators wanting to publish their books or music. Nowadays, many Israelis encounter the phenomenon, whether creators seek to open a new business, establish an interest-based community, or confront a personal challenge (medical or otherwise; Goldenberg 2015). Clear evidence of this can be seen in Israel's 2019 national elections when several parties chose to reach out to their backers by launching crowdfunding campaigns.

Rewards-based and donation-based crowdfunding was established in Israel in 2011 (equity-based was established in 2013), tail-winded by the success stories emanating from the predecessor US platforms—Kickstarter and Indiegogo. The Israeli crowdfunding industry is a market leader in the Middle East region and comprises a significant market in Europe. Between 2013 and 2016, the country raised \$363.25 million, with an average 11% annual growth rate. In 2015, Israel was the eighth largest market after the UK, France, Germany, The Netherlands, Finland, Spain, and Italy. During 2016, the total funds raised through crowdfunding platforms in Israel have been estimated at \$140M. A per-capita measure (2016) that enables a better understanding of the crowdfunding impact on the country, Israel was ranked 8th (\$16M), following the UK, Estonia, Monaco, Georgia, Finland, Ireland, and Denmark. Israel's leading type of crowdfunding by far is the equity, raising almost \$94M (68% of the total crowdfunding market). Second, comes Peer-to-Peer (P2P) consumer lending, estimated at \$33M (24%). The rewards and donations platforms, estimated at \$11.15M (8%), comprise the third-largest crowdfunding type (Ziegler et al. 2018b). Figures 15.1 and 15.2 present Israel's crowdfunding activity for 2015 and 2016 compared with other European countries.

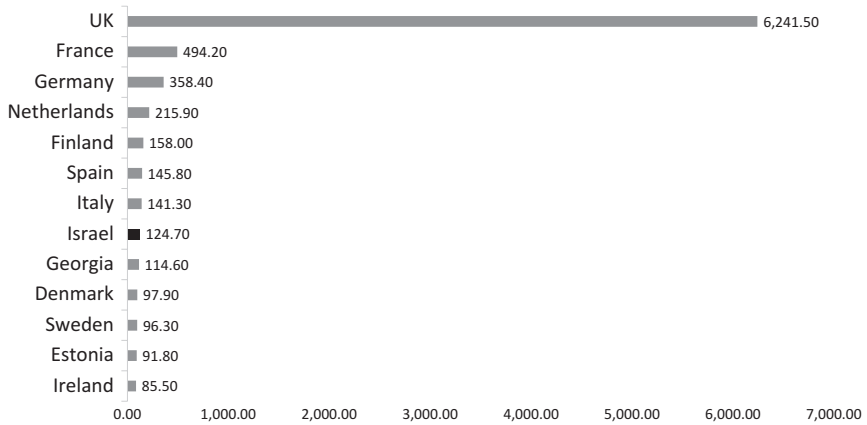


Fig. 15.1 Market volume by country for 2015 (in \$ million). (Source: Based on figure from Ziegler et al. 2018a, b)

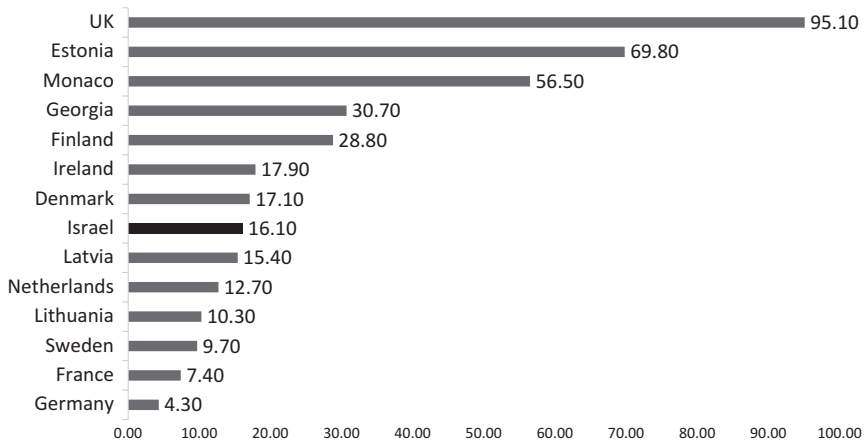


Fig. 15.2 Market volume per capita by country for 2016 (in \$ million). (Source: Based on figures from Ziegler et al. 2018a, b; World Bank Data for Israel 2019)

Equity Crowdfunding

Equity Platforms

Between 2013, when Israel's first equity crowdfunding platform was launched, and mid-2017, \$875M (IVC 2017) was raised through nine different equity crowdfunding platforms. Equity crowdfunding platforms were launched in Israel, as they were in most of the world, in 2013, after US President Barak Obama signed the Jumpstart Our Business Startups (JOBS) Act, allowing startups to legally raise capital from the crowd by issuing securities and remaining a private company. Since their establishment, equity crowdfunding platforms in Israel have successfully funded approximately 145 Israeli high-tech companies in the fields of internet, IT and software, communication, life science, clean-tech, and semiconductors. Within these companies, 25 have successfully executed an exit strategy, 15 were acquired, and 3 made an initial public offering (IPO). Intel is credited with the most lucrative buy-out deal by acquiring Replay Technologies, a 3-D rendering technology company, for \$175M in 2016. Two life science companies have conducted successful Nasdaq IPOs: ReWalk Robotics, an exoskeleton, enabling people with paraplegia to walk, raised \$36M in 2014, and UroGen Pharma, a urological cancer treatment developer, raised \$58M in 2017.

The Israeli platforms are active under one or more of the three different equity crowdfunding business models, representing three different regulatory paths: (1) the accredited investors-only model, (2) the up-to-35 offerees model, and (3) the offering coordinator model. The regulatory aspects of crowdfunding, according to Israel's Securities Law, will be discussed in the following section. Table 15.1 presents the three models along with the leading platform in each.

The first equity crowdfunding platform was established in Israel in 2013 by OurCrowd and is based solely on accredited, sophisticated, and high-net-worth individual investors willing to invest large amounts of money in high-risk investments. Other than its crowdfunding platform activity, OurCrowd operates as a venture capital fund. By 2019, their joint activity reached \$1.2B, with 200 companies and 30,000 registered

Table 15.1 Israel's three equity-based crowdfunding models

Business model	Leading company	Year established	Amounts raised	Number of campaigns
Qualified investors only	OurCrowd ^a	2013	\$1.2B ^a	200
Up-to-35 offerees	ExitValley	2015	\$27M	64
Offering Coordinator	PipelBiz	Mid-2017	\$17M	42

^aOurCrowd is active as a venture capital fund as well as an equity crowdfunding platform. Data retrieved from the platforms' websites, October 2019

investors in its portfolio, representing an average portfolio size of over \$350K. Active in 150 countries worldwide, the company was acknowledged as the third-largest equity crowdfunding company in Europe (OurCrowd 2019).

The second model—the up-to-35-unaccredited investors model—was established in 2015. Under this model, the offer can be revealed to only 35 investors, and thus, it cannot be fully publicized. Several equity crowdfunding platforms are active in the Israeli market under this model. ExitValley is the model's leading platform, raising more than \$28M from 15,855 investors, successfully funding 64 campaign in fields such as health, software, food, agriculture, and entertainment.

The third equity crowdfunding model is called Offering Coordinator and was introduced by the ISA to the Israeli audience during 2017. Under this model and its accompanying legislation, a company can publicly promote and advertise the selling of some parts of its equity in return for a predefined price. PipelBiz, the leading platform active under this model, has successfully raised \$17M for 42 health, e-commerce, software, entertainment, leisure, and additional campaigns, allowing 7766 individual investors to participate in this most democratic form of crowdfunding.

The three equity crowdfunding models currently operating in Israel represent the development of the Israeli equity crowdfunding market. Started back in 2013 as an exclusive arena limited to high-net-worth investors, equity crowdfunding projects are now available to all Israelis wanting to participate and benefit from this opportunity to finance entrepreneurial ventures. The equity crowdfunding platforms are evolving as well, adjusting themselves and offering new creative programmes to meet

the growing interest and competition. For example, ExitValley initiated an internal secondary market programme enabling investors to buy and sell shares from each other. ExitValley intends to launch an internal fund, offering investors a tool to extend and diversify their investment across several companies.

Equity and Regulations in Israel

According to Israel's Securities Law, any offer of securities to the Israeli public needs to be approved by the Israel Securities Authority (ISA). Two key terms require clarification in this regard: 'offer' and 'public'. Whereas the term 'offer' in this context is regarded as any activity, invitation, or intention meant for the convincement to purchase securities, the term 'public' is limited to the Israeli public. Thus, from an international perspective, an offer made to non-Israeli investors is not required to follow the ISA regulations; however, any foreign entity seeking to operate in Israel or approach the Israeli public must comply with the same regulations as the local institutions (ECN Report 2017).

With regard to equity crowdfunding, Israel's Securities Law has three exemptions of offering that are not required to be approved. (1) The offering of securities to no more than 35 individual investors (*up-to-35 offerees model*) on a consecutive period of 12 months. (2) The offering of securities to *sophisticated investors* such as banks, mutual funds, investment managers, investment advisers, underwriters, venture capital funds, and large corporations with equity of at least \$14M. (3) The offering of securities to *high-net-worth individuals*, characterized as having \$2.2M liquid assets, or having an annual income of \$330K in the past two consecutive years, or holding liquid assets valued \$1.4M and an annual income of \$166K in the past two consecutive years. The three exemptions aforementioned have no restriction on the total investment amount asked by the issuer nor a limit on the maximum amount an individual is allowed to invest.

In 2015, an amendment to Israel's Securities Law was published, allowing companies to raise money through crowdfunding platforms. However, the Crowdfunding Regulations became effective only at the beginning of 2018. Subject to specified terms, these regulations allowed

companies to openly offer shares to the Israeli public, and Israeli individuals to make investments in those companies, as long as the activity is taking place on a dedicated and authorized platform (*Offering Coordinator*).

The Crowdfunding Regulations delineate three levels of terms: platform level, issuer level, and investor level. At the platform level, the platform must be registered as an *Offering Coordinator*, pay all fees, report regularly to the ISA, and take reasonable steps to prevent fraud. Moreover, the platform must ensure compliance to the regulations regarding the offer information disclosed to the public. At the issuer level, the regulator restricts the amount that can be raised in a single offering during a period of 12 months to a range of \$1.1–1.6M, subject to the involvement of a leading investor, a technology evaluation report from the Israel Innovation Authority, or both. At the investor's level, the regulator limits the maximum investment per individual to \$2.8K per campaign and \$5.6K per year (ECN Report 2017).

Rewards and Donations Crowdfunding

Rewards and Donations Platforms

The widespread use of crowdfunding in Israel has much to do with the operations of the first rewards-and-donation platform launched in the country—Headstart—launched online in November 2011. Initially, the platform was aimed at equity, but due to regulatory limitations, and in the face of burgeoning international platforms such as Kickstarter and Indiegogo, it began its operations in the rewards and donations domain, entering equity only recently. Headstart's growth to fame can be traced to the success of *Meir Ariel's Memorial Concert* campaign. Meir Ariel was a popular singer and songwriter, who died in 1999. Since Meir Ariel's death, his family launched an annual memorial concert, involving many artists performing his songs. In 2014, the family failed to raise the needed money for the traditional event. They decided to use Headstart, then a newly established crowdfunding platform, to raise about \$114.3K, ending with approximately \$133.1K, a success rate of 117%. The campaign comprised 1203 backers that supported the campaign in exchange for

receiving tickets to the concert (the rewards consisted of various types of ticket deals). A year after the first concert (2015), the campaign for the annual concert raised around \$167.4K, supported by 1880 backers, reaching a success rate of 130%.

The Meir Ariel's Memorial Concert Campaign received much attention in the media, contributing to the public's awareness of crowdfunding as an alternative to traditional funding channels. It was the first to demonstrate the power of crowdfunding as an additional way to raise funds among creators who are unable to afford the traditional funding channels.

Headstart had undertaken the challenging task of market education, and thus, its growth paralleled the crowdfunding market growth. The growth pace was primarily dictated by fund-seekers and crowd-funders being persuaded to use crowdfunding. Over the years, several other platforms have been established, all offering similar options for crowdfunding, and not prejudiced towards either rewards or donations campaigns. Whereas the first few years were characterized by hype in the field, recently, the number of funding volumes and platforms have stabilized, resulting in smaller platforms encountering difficulties balancing their business model. This trend signals potential changes in the crowdfunding arena for the near future. Headstart remains Israel's leading platform, capturing about 90% market share for rewards and about 80% for donations. In an October 2019 update in the platform site, Headstart reported that 5258 campaigns achieved their funding goal, raising more than \$42.5M, receiving funds from more than 806,500 backers. Indeed, the brand *Headstart* has become a generic name used to refer to any crowdfunding activity. Headstart's two main competitors, MIMOONA and Jumpstart, together encompass about 15% of the total Israeli market. The remaining market presence is held by numerous small platforms, mostly specializing in donation-based campaigns. The operating platforms charge fees ranging from 3% to 9%, in addition to VAT (ECN Report 2017).

Figure 15.3 presents Headstart funding volumes over the years, and Fig. 15.4 presents Headstart's success rates. As can be seen from the figures, funding volume reached a peak in 2017, stabilizing in 2018. Success rates also grew over the first few years, stabilizing at around 58% since

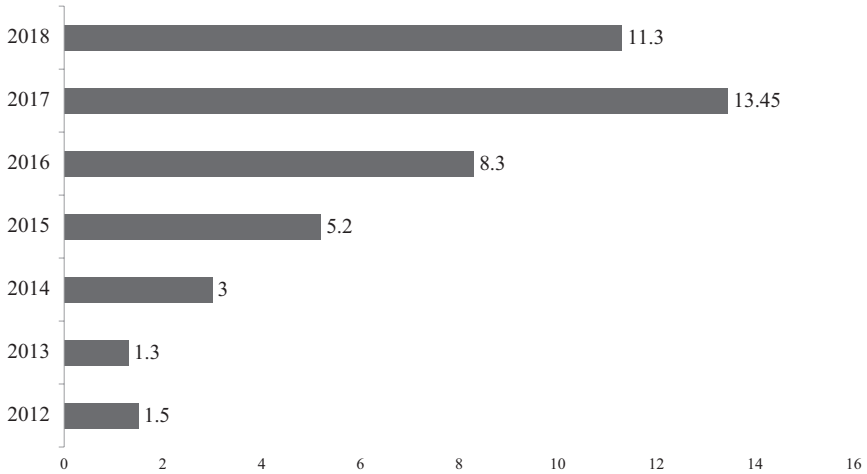


Fig. 15.3 Headstart (rewards and donations campaigns) funding volumes 2012–2018 (in \$ million). (Source: Based on data received from the company)

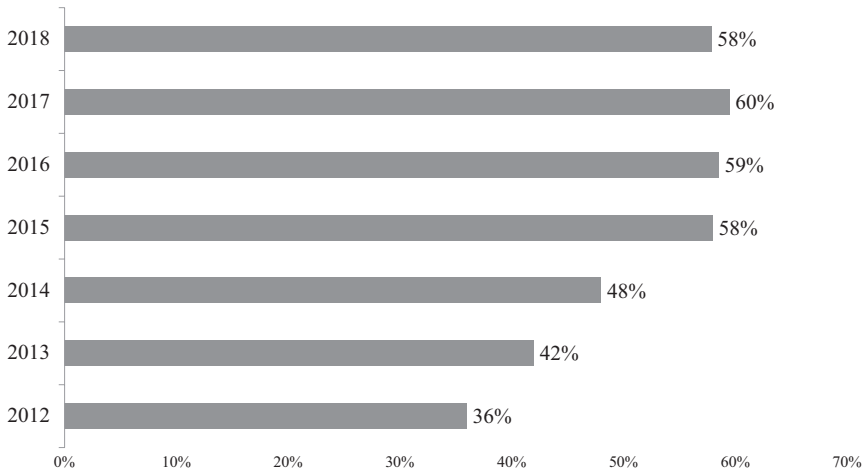


Fig. 15.4 Headstart (rewards and donations campaigns) success rates 2012–2018. (Source: Based on data received from the company)

2015. The company's success rates vary tremendously among the diverse campaign categories. Social campaigns have achieved the highest success rates, reaching 80%, followed by artistic campaigns in fields such as writing, music, comics, and film, as well as campaigns of a well-known annual

festival (The Midburn, the Israeli version of Burning Man), reaching 65% success rates. Political campaigns have reached 50% success rates, whereas, surprisingly, tech campaigns have achieved only 22% and lower success rates. Moreover, in rewards campaigns, most creators produce their own products (though often behind schedule). This high rate of successful production seems to be derived from their high commitment to the backers, the majority of whom are friends and family (Samocha 2016).

These success rate statistics indicate that in the formats of rewards and donations, the successful campaigns are those characterized by their domestic nature. For example, support for an individual's medical treatment (social campaigns) or raising money to launch a local band's new album will likely be more successful than launching a campaign for a new tech gadget. For this reason, the non-equity crowdfunding platforms tend not to expand to foreign campaigns and maintain their focus on the domestic Israeli market (Or 2019). Crowdfunding studies report that domestic campaigns have an advantage in reaching their funding goals, as the majority of the backers are from the local community (Josefy et al. 2017). In this respect, Israel, due to its small size and one-degree-of-separation character, behaves like "a small community", in that individuals around the country volunteer to support campaigns, even if they do not know the creator personally (Efrat et al. 2020). This is a manifestation of Israeli society's collective individualism's (Weiss 2003) communal nature.

Regulation in Rewards-and-Donations-Based Campaigns

There are no specific laws or regulations regarding rewards- and donations-based crowdfunding. As the backers do not anticipate any financial profit, return, or non-monetary rewards that are not part of the campaign, no specific regulations, aside from the general consumer protection regulations, are applied (ECN Report 2017).

P2P (Lending) Crowdfunding

Six lending platforms are currently active in Israel; of these, three specialize in loans to small businesses. The total loaned amount was estimated at about \$55M in 2018 and a total of \$120M since 2013 (year of the first platform's establishment). Out of the total amount, about 25% has been P2P (person-to-person) lending. The leading platform in the field is Tarya. Currently, the estimated amounts represent only a fraction of a percent of consumers' credit in Israel. The primary reasons for the hesitant development of P2P crowdfunding can be derived from regulation and lack of trust (ECN Report [2017](#)).

Future Trends of Israeli Crowdfunding

Internationalization

As in other Israeli industries, as the equity crowdfunding industry evolves, it becomes international in two key aspects. The first aspect is the growing number of Israeli entrepreneurs looking to launch their campaigns on foreign platforms, mainly the two US giants—Kickstarter and Indiegogo. In facilitating their international presence, both US platforms initiated moves to support an international orientation. Indiegogo has even opened a local office in Israel. The second aspect concerns the entrance of foreign companies as investors in local platforms. These companies primarily provide financing to the local platforms, viewing their investments as strategic moves, and thus, signalling the market's growth potential.

Specialization

Alongside the internationalization of the crowdfunding industry, we note an additional trend in the form of platform specialization. Whereas at the start of Israeli crowdfunding, the local platforms were associated with either equity, P2P, or rewards-and-donation types, these features are now changing. The first and largest rewards-and-donation platform

company—Headstart—transformed itself into an umbrella brand through splitting its operations into four separate sub-platforms: one sub-platform retained the original brand—*Headstart*—and serves as a rewards-based platform; the second adopted a new brand—*Giveback*—and houses donations-based campaigns; the third and most recent sub-platform—*Beactive*—focuses on legal struggle campaigns; and the fourth—*Fundit*—specializes mostly on real estate equity crowdfunding. New platforms entering the industry differentiate themselves by adopting a specific niche (e.g., political issues).

Among the equity crowdfunding markets, PipelBiz has announced the opening of the CannaVC, a venture capital fund in partnership with Everest Investment Banking, to support Israel's cannabis technology companies, thus, presenting new, mixed-model investment opportunities. Moreover, OurCrowd, Israel's largest equity crowdfunding platform has recently announced the opening of two new internal funds—one to support medical investments and the second to support environmental impact investments. All these moves represent a trend to specialization, which may be a consequence of the upsurge in the number of competitors.

Conclusions and Implications for Future Research

This chapter sought to shed light on the factors and conditions contributing to the inception and growth of crowdfunding in Israel. Our review of the field identified a set of country-level conditions encompassing the entrepreneurship ecosystem. These conditions include the entrepreneurship and innovation infrastructures, the role of the IDF in facilitating knowledge-based innovation and technologies, and the entrepreneurial spillovers driven by related and supporting organizations. These are complemented by social and cultural aspects, such as Israel's collectivistic and low-power distance society, *chutzpah*, and a high tolerance of failure.

The crowdfunding field is proliferating across all types, with its primary challenges currently in the form of regulatory barriers. The numbers

indicate that crowdfunding is much more than a passing trend, and, with the exception of crowdlending models, Israel exhibits patterns similar to those in other countries. These developments also apply to future trends.

Alongside the growth in campaigns' numbers and volume, we are witness to the creation of a cumulative body of knowledge, which is used by both platforms and individuals in assisting first-time entrepreneurs. This knowledge facilitates success across crowdfunding types.

Our review carries some practical implications for both platforms and entrepreneurs. Platforms, as they orientate first-time entrepreneurs, should urge them to use their close circle of friends and family as a means to recruit the additional circles based on the one-degree-of-separation phenomenon that characterizes Israeli society. As Israelis value boldness and out-of-the-box thinking, platforms can offer entrepreneurs to launch creative and innovative campaigns. In addition, due to the relatively low fear of failure, they should encourage them to launch additional campaigns, even if the initial campaign did not reach its goal. Regarding equity-based campaigns, both platforms and entrepreneurs can base their campaign advertising on the inclination of many Israelis to take part in the high-tech industry through investing in new startups. Regarding rewards- and donations-based campaign, the most successful campaigns have been those related to social values and social solidarity, a phenomenon consistent with the collectivist nature of Israeli society. Platforms can use these aspects to publicize themselves for potential entrepreneurs in order to appeal to them to use crowdfunding over alternative funding channels.

To advance our current work, we suggest three research endeavours. First, whereas most research to date has focused on the commonalities of crowdfunding across the different types (Macht and Weatherston 2015), we expect that different cultural aspects and dimensions comprise a critical factor (Shneor and Efrat 2014) and, indeed, influence the scale and rate of crowdfunding adoption. This culturally oriented direction of exploration could help advance the understanding of the differences occurring across countries regarding the adoption of crowdfunding and its manifestations (e.g., equity vs non-equity). Second, our chapter frames crowdfunding within the entrepreneurship orientation. However, empirical studies investigating this linkage have mostly focused on the equity forms of crowdfunding (e.g., Estrin et al. 2018). In light of the centrality of such elements to

crowdfunding in general, a better understanding of the culturally based entrepreneurial drivers is vital. Hence future research should advance on Efrat's (2014) conclusions concerning the impact of culture on entrepreneurship, and explore the impact of additional macro level aspects (e.g., political and economic) on development and dynamics of non-equity crowdfunding. Third, whereas the crowdfunding phenomenon has attracted significant research attention due to its rapid growth, its role within existing financial frameworks is often overlooked. A valuable research direction could address the linkages, associations, and reciprocity of crowdfunding and additional finance techniques in advancing entrepreneurship.

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