



## **Social Enterprise in Israel: The Swinging Pendulum between Collectivism and Individualism**

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## PREFACE AND ACKNOWLEDGEMENTS

This paper is part of a series of Working Papers produced under the International Comparative Social Enterprise Models (ICSEM) Project.

Launched in July 2013, the ICSEM Project ([www.iap-socent.be/icsem-project](http://www.iap-socent.be/icsem-project)) is the result of a partnership between an Interuniversity Attraction Pole on Social Enterprise (IAP-SOCENT) funded by the Belgian Science Policy and the EMES International Research Network. It gathers around 200 researchers—ICSEM Research Partners—from some 50 countries across the world to document and analyze the diversity of social enterprise models and their eco-systems.

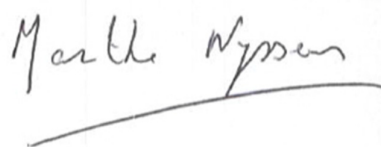
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First and foremost, the production of these Working Papers relies on the efforts and commitment of Local ICSEM Research Partners. They are also enriched through discussion in the framework of Local ICSEM Talks in various countries, Regional ICSEM Symposiums and Global Meetings held alongside EMES International Conferences on Social Enterprise. We are grateful to all those who contribute in a way or another to these various events and achievements of the Project.

ICSEM Working Papers also owe much to the editorial work of Sophie Adam, Coordination Assistant, to whom we express special thanks. Finally, we gratefully acknowledge the role of our Supporting Partners, who are listed at the end of this document and presented on the Project's website.



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 Gidron, B., Abbou, I., Buber-Ben David, N., Navon, A. and Greenberg, Y. (2015) "Social Enterprise in Israel: The Swinging Pendulum between Collectivism and Individualism", *ICSEM Working Papers*, No. 20, Liege: The International Comparative Social Enterprise Models (ICSEM) Project.

## BACKGROUND

In Israel, the common terms used by the public for social enterprises (SE) are *social businesses* and *social-business entrepreneurship*. These terms typically refer to a social enterprise that is registered as a business or a non-profit organization (NPO). Cooperatives were traditionally regarded as a separate phenomenon; only recently have they come to be considered as part of the SE field. The academic study of the field began with a focus on the NPO model (Benziman 2009; Abrutski and Askenazi 2011), subsequently expanding to include cooperatives (Solel 2011) as well as business entities (Gidron and Abbou 2012), primarily WISE-type enterprises. In order to gain an understanding of the social enterprise phenomenon, one must consider it in the context of its historic, economic, social, and political processes and of the relationships between the state, business and third sectors over the years.

### Israel

Established in 1948 as a homeland for the Jewish people, Israel is a country of immigrants. Since its inception, Israel's population has grown almost ten-fold. Its eight million inhabitants comprise a mosaic with varied ethnic backgrounds, lifestyles, religions, cultures, and traditions. Currently, approximately 73% of Israeli Jews are Israeli-born, 18.4% are immigrants from Europe and the Americas, and 8.6% are immigrants from Asia and Africa (including the Arab world). Today, Jews comprise 75.4% of the country's population, whereas 20% are Arab (Ducker 2006), the great majority of whom are Muslim. Israel also hosts a significant population of non-citizen foreign workers and asylum seekers from Africa and Asia.

Israel shares land borders with Lebanon, Syria, Jordan, the Palestinian Authority, and Egypt. Over the years, it has fought several wars because of the unresolved Palestinian-Israeli conflict.

Israel's economy focuses on the manufacturing of products characterized by high added value, which are primarily based on technological innovation. These include medical electronics, agro technology, telecommunication, computer hardware and software, solar energy, food processing, and fine chemicals. The country has the second-largest number of startup companies per inhabitant in the world (after the U.S.) (Bounfour and Edvinsson 2005, p. 47) and the largest number of NASDAQ-listed companies outside North America. According to the OECD (2013), Israel is also ranked first in the world in expenditure on Research and Development (R&D) as a percentage of GDP.

Internally, the Israeli society is characterized by multiple schisms, which erupt from time to time, occasionally escalating to violence. One rupture involves *national* aspects between the Jewish majority and the Arab-Palestinian minority. Its origin lies in the war of 1948, after which the State of Israel was established. This rift also has an economic facet, given that the Arab population lags behind the Jewish population on different economic, educational, and social parameters. The second schism occurs along *ethnic* lines, dividing the *Ashkenazi Jews* (European in origin) and the *Mizrachi Jews* (Middle Eastern in origin). Its origin lies in the country's institutional infrastructure, which was erected by the Ashkenazi population and according to its ideals and cultural norms during the pre-State era; when immigrants from the Middle Eastern countries arrived in Israel, mostly in the 1950s and 1960s, they had to adapt to frameworks that were foreign to them and disregarded the social and cultural norms of this new population. This rupture is also expressed in educational, social, and economic arenas.

The third rift concerns *religiosity*. Roughly 20% of the Jewish population in Israel define themselves as “religious” to varying degrees. Among these, the most extreme are the ultra-orthodox, who do not accept the idea of a secular Jewish state. They live in closed communities, governed by their own traditional institutions, and maintain only the minimal necessary contacts with state institutions. This rupture, too, has clear educational, social, and economic expressions.

Despite these internal rifts in society, which reflect a society still in the process of establishing itself and its ethos, and despite external threats, which are constantly there, the overall societal dynamic clearly embodies the desire to move forward and develop, given the characteristics of entrepreneurship and ideals of the Jewish culture.

## Between socialism and capitalism

Given the threat posed by neighboring countries and the need to formulate a coherent society, including the masses of immigrants arriving from all over the world (Israel doubled its population in its first three years), the young state chose a statist, centralist governance model. This model of governance was chosen by the Socialist leadership in command during the pre-State era, which gave preference to a collectivistic ethos, embodied for example in the societal ideal of the Kibbutz. The state thus became the major actor in society and was very involved in policy and its implementation. Other actors (business, nonprofits) were dependent on directives from the central government, which adopted a welfare state framework and assumed responsibility for the welfare of its citizens.

Statist government supremacy in Israeli economy and society had undergone a gradual change in the late 1970s. The monolithic framework of the state, responsible for the welfare (*sensu latu*) of all citizens, encountered increasing difficulty in fulfilling this role due to the far-reaching changes in demographic, political, technological, economic, and social characteristics of the rapidly developing country (Gidron et al. 2004). The trauma following the 1973 Yom Kippur War, which shattered many myths regarding the wisdom of a dominant statist system, was a major factor in the transition that followed. The change of government (1977), whereby the right-wing *Likud* party took over, and the peace treaty that this new government concluded with Egypt (1979) were additional factors in the disillusionment with the previous government’s static and statist approach. The public developed an expectation for a less protective economy, openness to foreign markets, a change in approach towards the third sector and support for the activity of civic associations. The Law of *Amutot* (associations) in 1980 signaled this new disposition.

Throughout the 1980s and the 1990s additional liberalization measures transpired in monetary policy, domestic capital markets, and various instruments of governmental interference in economic activity. The role of government in steering the economy considerably decreased. During those years many government-owned companies were privatized, and government expenditures in education and health compared to total expense were respectively reduced from 86% in 1980 to 74% in 1987 and from 51% in 1985 to 45% in 1990 (Shapira 2010). Many public services were also privatized, and a system of contracts with for-profit and non-profit organizations replaced public delivery of services in education, health, welfare, and so on.

The process of shifting from a welfare state orientation to a neo-liberal ideology continued in the first decade of the twenty-first century, and in 2003 the Ministry of Finance embarked upon

a major effort to decrease welfare payments, induce greater participation in the labor force, privatize enterprises owned by government, and reduce the relative size of both the government deficit and the public sector itself. These moves were all the result of a new ideology adopted by policy-makers according to which a market economy was necessary for the country in order to compete in the modern globalized world.

These policies indeed enhanced the Israeli economy, especially in the 1990s, during the high-tech boom. At the same time, however, they deepened social gaps between the rich and the poor. Also, while markets were globalizing, so did philanthropic markets, which found their way to Israeli NPOs in a variety of fields and issues. Thus, Israel has gone through major privatization processes since the mid-1980s and it has gradually changed its predominant ideology from that of a welfare state to a neo-liberal one, entailing a decrease and reduction in the state's role and involvement in society and an increase in the role of the business and third sectors.

The global financial crisis of 2008 did not significantly impact Israel's domestic economic performance. The financial market remained relatively stable, no bailouts or massive monetary injections were necessary, and there was no real threat of a debt crisis. Furthermore, from the second half of 2009, Israel has enjoyed favorable growth rates by international standards; unemployment had declined in 2010 to less than 7%, one of the lowest levels experienced since 1985, and no severe cutbacks to public budgets were on the agenda for the years 2010 and 2011. Nevertheless, these aggregate macro indicators concealed a far more complex socioeconomic reality, characterized not only by the ever-growing disparity in the distribution of economic resources, but also by relative deterioration in the economic opportunities of the younger generation as a whole and that of the middle class in particular, which suffered from high costs of living and high expenses on welfare, health, and education services (Rosenhek and Shalev 2013, p. 3). These circumstances led to a massive series of protests during the summer of 2011, which brought to the streets hundreds of thousands of protesters who demanded social justice. In addition, the financial crisis had a major effect on the philanthropic flow of resources to Israel. Indeed, at the turn of the new millennium, certain Israeli NPOs relied, to a significant extent, on foreign foundations and philanthropists. Since these foundations suffered from extensive losses, they reduced their contribution and even stopped investing in and donating to Israeli NPOs (Katz and Yogev 2009). This affected 51% of third sector organizations and brought 81% of these into financial difficulties (*ibid*).

## A culture of entrepreneurship

Israel is characterized by a high level of entrepreneurship. In the 2007 report of Global Entrepreneurship Monitor (GEM), which examined levels of entrepreneurship and economic growth in 42 states, Israel was ranked first in terms of relative rate (23.9%) of entrepreneurs of high-tech mature (at least 23-month-old) businesses<sup>1</sup>. Israel's success in the areas of high-tech and entrepreneurship can be interpreted in several ways. Senor and Singer (2009), for example, show that Israel, while being a young country of under nine million people and in constant military conflict, established more start-up companies than stable, peaceful countries such as Japan, India, Korea, Canada, and the U.K. Key factors in the country's growth named by these authors include the Israeli way of thinking, its immigration policy, its research and

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<sup>1</sup> Among established businesses (EB) in Israel, the percentage of businesses active in the high- and medium-technology sector was 23.9%! This percentage of high- and medium-technology entrepreneurship in established businesses put Israel in first place among the GEM countries.

development facilities, and its military service. Analyzing the factors which motivate Israeli entrepreneurs, Yair (2012) suggests that the main motivator involves the struggle for survival: the memory of the Holocaust is indeed still vivid for Israel (this struggle is not restricted to the economic sphere alone but is extended to a more primal struggle for existence).

## SE in Israel

The shift in the late 1980s from a statist, centralized approach to a neo-liberal regime led to growing economic gaps between population groups, causing the middle class to shrink. These economic conditions led many young entrepreneurs to seek solutions and new models for doing business that would also have social impact. In addition, the changes in philanthropy during the past decade, combined with the financial crisis, which dramatically affected the third sector in Israel, forced NGOs to rely more on projects yielding commercial income rather than on philanthropy and to manage these projects on the basis of business models to make them sustainable. These processes led to a growing interest in social enterprises and market-driven social ventures during the past five or six years.

It is nevertheless important to realize that in the history of Israel, the interest in social enterprise did not begin with the financial crisis of 2008. The link between the social and economic aspects of society and the need to express these facets jointly is found as early as in the writings of the visionaries and founders of the State (Herzl 1941; Gordon 1952). The idea of creating a model society based on social justice in light of the ideals of the Biblical Prophets was very much present during the pre-State era and the first two decades ensuing independence. This led to an economic system based to a large degree on cooperatives, be it in production, service or consumption, culminating in the famous Kibbutz institution, which embodied the idea and was its truest expression (Pauker, in Halamish 2010). The crises, in the early 1980s, of the Histadrut Labor Unions, the Kibbutz Movement and the entire cooperative movement with it, brought about a collapse of that system and a gradual adoption of the alternative, neo-liberal ideology as an organizing principle of economic and social management.

A survey of social enterprises in Israel registered as businesses, cooperatives, NGOs or NGO subsidiaries (Gidron and Abbou 2012) found that the phenomenon itself is small, in its preliminary stages. The organizations categorized as social enterprises were themselves also small (usually employing 10-25 individuals) and most were new, having been established after the year 2000. The phenomenon revolves around different marginalized populations, in particular youth in distress and populations coping with disability. Comparing social businesses (SBs) and business ventures within NPOs, it was found that similarity in target populations led to similarity in the social goals of the enterprises. The different legal frameworks used for each enterprise, however, led to different business goals and consequently also to a varying impact on the organizational, financial, and business aspects of the enterprise.

Social businesses, because of both legal restrictions and ideology, were more similar to regular businesses, rendering them more embedded in the business world and culture, while business ventures within NPOs seemed to be “extensions” of their parent organization. The study concluded that the fact that no specific legal framework existed for this type of organization (unlike in the U.S. and the U.K., where specific legal forms exist for organizations with social objectives, which are allowed to distribute only limited profits to owners) was the

major reason for the limited size of the phenomenon and the fact that it was based on initiatives of enlightened businesspersons or NPOs developing market-driven enterprises.

## MODELS OF SE IN ISRAEL

In the current sphere of Israeli SEs, we identify three models, according to their legal status: (1) commercial SBs, (2) NPOs, and (3) cooperatives. We find that each model has distinct characteristics in terms of social mission, economic project, and governance structure (see Table1). These findings are in line with the ICSEM conceptual framework (Defourny and Nyssens 2012); each model is located in a different area of the SE “galaxy”.

**Table 1: Distinct characteristics of Israeli SE models**

	<b>Business</b>	<b>NPO</b>	<b>Cooperative</b>
<b>Governance</b>	One or two entrepreneurs	Participatory governance	Democratic governance involving stakeholders
<b>Ownership</b>	Independent	Established by an organization; led by voluntary board	Established by a group; collective ownership
<b>Economic project</b>	Initial funding: private equity, loans and investors; Ongoing: 100% sales; Profits: belong to the owner(s) or shareholders; Risk: high risk tendency	Initial funding: philanthropy; Ongoing: sales and donations; Profits: invested in social cause; Risk: low risk tendency	Initial funding: membership fees and share purchase; Ongoing: sales; Profits: belong to group members; Risk: Medium risk tendency
<b>Social mission</b>	Emphasis on a social mission that can provide a competitive advantage, such as environment or employment; Target population: strongest individuals within marginalized populations	Broad variety of social missions, including: culture, education, employment, rehabilitation; Target population: can accommodate a larger spectrum of marginalized populations	Social mission: priority to social mission such as social activities and consumption; Target population: socially-conscious individuals
<b>Specific challenges</b>	Business side taking over the social side; Costs required to cope with social issues	Relating financial activity to social core; Professional economic management	Effective decision-making and management; Require membership fees that might exclude marginalized or poorer populations



Below we briefly describe each model, before discussing the ICSEM categories of governance and ownership, economic project, social mission, and the specific challenges that each model faces.<sup>2</sup>

## Social businesses

Israel's social protest of 2011 set the ground for changes in the socioeconomic sphere, emphasizing the need for people and organizations that create solutions able to lead to a better society. A call emerged for a shift whereby Israeli entrepreneurs—rather than pursuing a capitalistic “win-it-all” approach, seeking only to gain a profit—would use their skills to provide benefits for society and the community (Svirsky 2013). SBs, i.e. SEs established as businesses, provide one type of expression for this need. With an average of 10-25 employees per business (Gidron and Abbou 2012), they are still small in scale. Presently, most SBs focus on employment and inclusion of marginalized populations, mainly distressed youth and populations coping with disability, as well as on environmental issues.

Social businesses are registered as standard business companies, but their vision includes a social mission. Unlike the U.K.—with the Community Interest Companies (CIC)—or the U.S.—with the Low-Profit Limited Liability Companies (L3C), Israel does not provide legal forms for such companies. Thus, a substantial factor which slows SBs' growth is the lack of formal public support available to these enterprises and their entrepreneurs. These entrepreneurs face unique expenses, derived from the nature of their activities, such as the need to hire psychologists or social workers to help target populations integrate into the enterprise, yet they must contend without proper governmental assistance. For this reason some entrepreneurs prefer the legal form of NGO over that of SB, as NGOs can receive funds from philanthropic sources. These conditions also lead to an interesting phenomenon: in Israel, the force behind such organizations really stems from the bottom, that is, from citizens' activity resulting from their sense of commitment and personal drive to improve society, rather than being a response to some entitlement for support from government. The lack of an appropriate legal form hence impacts the types of people behind SBs.

An interesting example of the governmental approach towards SBs came up in an interview with one of the co-founders of *Liliot*, a restaurant employing youth at risk. When expressing their intentions to change the legal status of the restaurant (previously registered as an NGO) into a business to cover its debts, the group of owners received a radical reaction from a government official: “You are robbing the public.” The governmental institutions suspected that move was driven solely by economic reasons, which would have caused the social project to perish. This kind of response on behalf of the state raises questions regarding its conceptions about the dichotomous differentiation between social and traditional business in Israel as well as about the readiness—or lack hereof—of state institutions to incorporate SB models (York 2010).

When analyzing Israel's SB model on the basis of the ICSEM framework, we observed several patterns. First, in terms of **governance and ownership**, the small number of individuals involved in establishing SBs leads to an interesting phenomenon. As SBs are typically established by one or two entrepreneurs, they are free to structure it as they choose, and free of the need to develop a consensual model, which is more relevant to NGOs and

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<sup>2</sup> All the following examples are based on case studies and interviews of the different SEs we studied during 2014.

cooperatives. In that sense, it is a less cumbersome model for the entrepreneur. In addition, the fact that the initial investment is usually drawn from the founders' own personal capital also contributes to their independence (Borzaga and Defourny 2001).

Secondly, in terms of the **economic project**, while initial funding may be based on private equity, loans, and investors, ongoing funding is fully based on sales. Legally, the profit belongs to the owner(s) or shareholders. The lack of legal form for SBs leaves the issue of profit distribution undefined; the owner(s) and shareholders have the right to distribute profits as they see fit. A good illustration hereof is provided by ZeZe, and the way in which this SB formulated its profit distribution rules. Established in 2011 by three young students from Tel Aviv, ZeZe is an active and involved community of young people bringing together a variety of skills to further develop themselves while working towards social activities. One of the organization's unique characteristics is constituted by some self-imposed agreements initiated by the founders. Similar to the common SB models in England, ZeZe distributes no dividends, and in the event that the organization ceases to be operative, its assets must be passed on to a civil society organization; no dividends would be available in such an event either.

A third aspect concerns **risk taking**. Typically, the entrepreneur is an individual, operating with no guarantees (be they public or private). Since the enterprise operates in a highly competitive market, the act of establishing a SB is in itself is a matter of high risk. The entrepreneurs must consequently exert themselves mightily to find possible economic advantages without losing focus on their social goals. An interesting example of competitive advantage is found in a call center that hires employees with physical and mental disabilities. While standard call centers suffer from high rates of employees' turnover due to exhaustion, this entrepreneur has learned that employment of people with disabilities not only has an obvious social impact, but that it also represents a business advantage insofar as staff is more stable.

Most SBs focus on **missions** of providing employment for marginalized populations or environmental issues, and most cater food and beverage (Gidron and Abbou 2012). It should be noted, however, that among marginalized populations, these organizations recruit mostly the strongest individuals—a phenomenon known as cream skimming (Heckman and Smith 2003). Additionally, the lack of clear organizational structure, profit distribution, and evaluation of impact hinders the distinction between “genuine” SBs and traditional businesses that are only using the social umbrella for public relations advantages. An important question thus arises: What is it that actually defines a SB as opposed to a traditional business?

The last trend concerns the main **challenge** faced by SBs: violation of the delicate balance between the social and business aspects in favor of the latter. This phenomenon occurs in several ways. As time goes by, SBs might drift from their original social mission and goals, particularly when market pressures force them towards achieving better financial results. This might lead to the dismissal of low performing employees, who may be among the populations originally targeted by the SB (Benziman 2009). An additional challenge is derived from the typical characteristics of the entrepreneurs themselves. Most SB entrepreneurs come from a business background; they are therefore less knowledgeable in areas where social expertise is required, such as psychological services or social work guidance. Finally, all the SBs in our research faced a financial challenge as it is harder to find investors for this type of businesses, which are usually less profitable, and entrepreneurs are reluctant to seek government support. Moreover, the lack of suitable legal forms limits the possibilities for SBs to apply for tax benefits or seek donations.

## NPOs

NPOs in Israel have played a central role in the formation and growth of the country's society and economy (Gidron et al. 2004; Shmid and Rudich 2009). Prior to the establishment of the State, Zionist NPOs functioned as service providers in the fields of education, health, welfare, and similar social spheres. Following the establishment of the State of Israel, some of these NPOs were nationalized and integrated into government ministries, while others maintained their status but worked in close collaboration with the government (Katz et al. 2009). Additionally, the shift from a socialist approach to a neo-liberal agenda, leading to the dismantling of the welfare state as it was known before (Portugali and Danieli-Miler 2007), boosted the growth of the third sector. The combination of the dismantled welfare state, on the one hand, and the pressure to become more business-like, on the other, prepared the ground for a shift in the funding-seeking behavior of NPOs.

The 2008 economic crisis, which deeply affected the NPO sector worldwide (Katz and Yogev-Keren 2010), had a powerful effect on Israel's third sector, which relies heavily on international donations, mainly from the U.S. (*ibid*). Following the crisis, many NPOs turned to income-generating activities. Although such income-generating activities have been common practice for years, in the past they used to be peripheral to the organization's mission (Gidron and Abbou 2012). Recently, however, a growing interest has been noticed among NPOs to integrate their income-generating activities with their core social activities, so that the business activity will financially sustain itself while creating a social impact and if possible also support other activities within the organization (Abrutski and Askenazi 2011).

A great variety of SEs are established as NPOs. While a more thorough review of these organizations would be necessary, an initial investigation of our case studies already suggests certain characteristics. First, in terms of **governance and ownership**, SEs that operate as NPOs are usually established by existing NPOs as an additional strategy to promote their social goals, either as a project within the existing NPO or as a separate entity. NPOs are led by a voluntary board of directors; this allows for a more participatory governance structure than in the business model, while not requiring full participation as in the cooperative model. For example, in order to enhance participation, *Elsanabel*, a catering business that employs Bedouin women in the Negev, invited employees to join the board to decide in which social projects to invest its surplus.

Secondly, in terms of the **economic project**, as NPOs are usually not eligible for bank loans and cannot offer financial return to investors, they rely mostly on philanthropic funds or government support for the establishment and consolidation of their SE. After these first stages, some NPOs create business models that remain partly reliant on philanthropic funds or governmental support, but most strive to become economically independent, relying on their sales, and they aim to generate surpluses that may further develop the enterprise. All income is reinvested in the social cause, be it through the SE or by supporting other activities of the owning NPO. For example, in *Sipur Hozer*, a social enterprise that provides rehabilitation services for mentally challenged individuals by involving them in collecting and selling used books, all profits are invested in the establishment of new branches throughout Israel, allowing the organization to cater a greater number of people in need of rehabilitation and to recycle more books.

From an economic standpoint, SEs established as NPOs tend to avoid risks, due to their reliance on donors who focus on positive results and success. This tendency might also be

influenced by the fact that the leading entrepreneur does not gain financially from the SE's success. While entrepreneurs in NPOs are highly motivated, their motivation stems mostly from commitment to the social impact.

In terms of their **social mission**, NPOs provide both financial and organizational support to their SEs. Due to their potential to partly rely on both philanthropic and government funds, these SEs can address a greater variety of social missions, which are perhaps less profitable, such as education, culture, and rehabilitation. Moreover, compared to SEs that are run as businesses, the support of the NPO allows these SEs to work with more severely marginalized people, who require a longer process in order to become independent or self-sustaining.

Finally, the **main challenges** facing SEs in this model are finding a balance between the social mission and the financial demands of the business and finding individuals with the professional skills required to run a successful business (Benziman 2009; Portugaly and Danieli-Miller 2007). Many organizations struggle, economically speaking, to combine these factors. For example, *Elsanabel* almost went bankrupt after three years. It was only when they added an experienced businessman to the board that they were able to create new strategic plans and balance their accounts, and even generate substantial profit. Balancing the social and economic facets is extremely challenging as each derives from different organizational models and distinct institutional logics (Jay 2013).

## Cooperatives

As indicated earlier, the history of the Israeli economy and society during its formative years is very much intertwined with the cooperative concept. It was a major force in building the rural infrastructure of the country. Both the Kibbutz and the Moshav, as two unique forms of collaborative settlement, played a major role in building industries and agriculture (e.g. the food industry and public transportation). The cooperative concept was also strongly present in the consumer market in the form of cooperative supermarkets and banks. According to Russell and Hanneman (1992), hundreds of cooperatives in a wide range of services and industries operated in Israel in the first two decades after the country's establishment, making the cooperative model the backbone of the economy. In fact, through the major part of the 20<sup>th</sup> century, Israel was considered as one of the world's great laboratories of cooperatives and work place democracy (Russell 1991).

In this context, perhaps the most noticeable example is that of the Kibbutz. A Kibbutz is a collaborative-collective community<sup>3</sup> in which the social, economic and personal aspects of life are intertwined together and managed by the group. In the traditional Kibbutzim<sup>4</sup>, the members did not own private property. Each and every member worked according to his/her ability and the Kibbutz catered for the needs of all the members and allocated the mutual resources. Israeli Kibbutzim are unique in several dimensions—the creation of this voluntary and collective way of life and the scale of the phenomenon, but also, first and foremost, their role as a vehicle for fulfilling ideological and national goals that stretch beyond the boundaries of the cooperative organization itself (Pauker, in Halamish 2010), mainly by taking upon themselves the task of forming settlements of agriculture nature.

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<sup>3</sup> Registered in Israel as cooperatives.

<sup>4</sup> Plural for Kibbutz.

The political changes of the 1970s and the corruption cases that emerged in the cooperative movement at that time caused many cooperatives to stop their operations or go bankrupt, and the cooperative form simultaneously lost its legitimacy in the eyes of the public. This crisis affected the Kibbutz movement as well, but unlike industrial or consumer cooperatives, which could be dissolved, the Kibbutzim, homes to their members, could not simply disappear. Through two agreements between the Kibbutz Movement and the government (in 1989 and 1996 respectively), loans were granted to the Kibbutzim; these loans entailed a series of reforms and they “resuscitated” the economic infrastructure of the Kibbutzim, which are now thriving again.

An interesting development in the 1980s was the establishment of several urban Kibbutzim, which were comprised of groups of young idealist Kibbutz members who left their homes in the traditional Kibbutzim and moved to low-income neighborhoods in urban centers. At its core, the goal of the urban Kibbutz was to preserve the collective way of life in an urban—rather than rural—setting. The founders of the urban Kibbutzim believed that the Kibbutzim movement should formulate new ideals, as the old ones of settling the land and developing agriculture had been achieved. They believed that these new urban Kibbutzim should strive to narrow the broadening social and economic gaps in the Israeli society, mainly by improving education in the periphery, and they saw this as the new frontier (Michaeli and Dror, in Dror 2008). The basic assumption was that the collective egalitarian idea could and should be brought to urban settings. As put in the motto of one of the first urban Kibbutzim: *“To bring the Kibbutz to the people rather than the people to the Kibbutz”*. In many cases the members of the urban Kibbutzim established NPOs in the field of education and community development.

The awareness to issues regarding social justice and growing social rifts that was ignited and developed during the social protests of 2011 brought about a renewed interest in the cooperative concept and several dozens of new cooperatives were formed, primarily consumer cooperatives. Their rationale was to create a system that combines economic benefits with affinity and solidarity among its members while offering an alternative to the strictly commercial profit-maximization business model.

Cooperatives in Israel are incorporated under the Cooperative Societies Ordinance of 1933.<sup>5</sup> This legislation incorporates the veteran Kibbutzim and their industries, the assets of which total billions of Shekels, as well as the recently formed new cooperatives, created by local concerned citizens. While the established cooperatives, especially those linked to the Kibbutz Movement, have umbrella organizations that cater for their needs and support them, the newly formed cooperatives are struggling to develop such systems.

The increase in the number of current cooperatives can be attributed to three key factors: first, the existence of conditions linked to a “bad economy”, during which cooperatives tend to increasingly emerge as a countercyclical development (Russell and Hanneman 1992); secondly, the growing openness and interest, especially among young entrepreneurs, to develop new models through which to create social impact (Gidron and Abbou 2012); and thirdly, an emerging awareness towards social problems in light of economic conditions (Filk and Ram 2013). From this perspective, we observe that the new generation of cooperative founders see themselves as social activists, perceiving the cooperative model as an opportunity to correct economic inequality while also addressing social goals; many of the new cooperatives thus have a stronger emphasis on benefiting the broad society, not only their

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<sup>5</sup> The Ordinance was formed during the pre-State era and since then, it underwent several amendments in the form of regulations.

members. Since the latest emergence of cooperatives as SEs is relatively new, it is too early to draw conclusions regarding this trend. Notwithstanding, our initial findings in terms of the ICSEM framework suggest the following observations:

**Governance and ownership** in cooperatives are collective as a matter of law. Collectives do however differ from one another in their organizational structure of governance. For example, the *Bar Kayma* restaurant and communal space has 430 members. To allow for ongoing decisions while maintaining the cooperative's democratic essence, members hold annual general assembly meetings in which they appoint the board members. The five-member board functions as the managerial committee (one member is always the employees' representative), authorized to make decisions, run the financial aspect of the business, synchronize between all stakeholders and various initiatives, and maintain contact with suppliers, employees, and volunteers. Members also maintain a channel for open dialogue through a Facebook group, and the "members' meeting forum" is held regularly (once a month).

In terms of the **economic project**, income is mostly generated by membership fees, the purchase of shares by members, and sales when relevant. For the most part, cooperatives do not rely on philanthropic grants or government support, but on their own income-generating channels. Since the cooperatives in our study are relatively new, they are currently not profitable. Their declared policy regarding surpluses, nonetheless, is that surpluses belong to the members and will be divided according to the agreed policy decided by the members.

Cooperatives tend to address a diverse range of **social missions**. For example, the social mission of *Tamuz*, an urban Kibbutz, is to provide better education opportunities for children in the city of Beit Shemesh. The mission of *Ofek*, the first cooperative bank initiative in Israel, is to correct market failures by offering more reasonable financial services in light of the dominance of commercial banks.

The **challenges** that most SE cooperatives are facing are both internal and external. Internal challenges include those associated with governance: the need to reconcile the tension between efficient decision-making and a participatory, democratic and inclusive way of managing the organization (Schoening 2006). Another significant challenge for cooperatives is financial: they must find a way to become profitable and compete on the market with other, non-cooperative and non-socially-oriented businesses (Rothschild 2009). The external challenges concern raising public awareness and trust towards cooperatives as a social vehicle as well as the need for government policy regarding these organizations.

## CONCLUSIONS

While we have separated the three models in order to clarify our discussion, it is important to note that, in practice, the relation between the three is more complex than what is delineated here. Indeed, non-governmental organizations (NGOs) can choose to establish their social enterprises as a subsidiary that is either a separate NPO or as a business<sup>6</sup>; businesses can

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<sup>6</sup> In Israel, only 14% of registered NPOs receive the government's approval to provide their donors with tax benefits (Limor 2012). The criteria for receiving such approval are ambiguous and many NPOs are concerned that being involved in substantial business activity and specifically generating profits will disqualify them from receiving this valuable approval. This is one of the main reasons leading NPOs to establish SEs as subsidiaries. If the subsidiary SE does not rely on direct donations, it is easier, from a bureaucratic point of view, to register it as a business than as an NPO (L. Asa, financial consultant to NPOs, Personal communication, September 8th, 2013).

partner with NGOs as owners of joint SEs; and cooperatives may establish their own NPOs. We nevertheless find this division into three models useful as it highlights the differences between them while allowing us to identify the different traditions and influences that each brings into the Israeli context.

The business model is closely linked to the North-American perceptions of social enterprise (Defourny and Nyssens 2010) that strongly advocate for business to commit to a clear social goal but do not encourage the engagement of multiple stakeholders or limitations on profit distribution. This approach stresses the potential of win-win solutions and focuses on harnessing the potential of the existing economic systems to promote social causes.

The NPO model is varied and draws on a mixture of influences. On the one hand, the high percentage of U.S. funds supporting NPOs led to an adoption of the American earned-income model. On the other, the NPO model in Israel plays with the idea of the social economy, and specifically, of a local sustainable economy (Baruch et al. 2011) calling, like the cooperatives, for more radical social change. The NPO model advocates for SEs to become providers of privatized government services, combining the efficiency of business with the social responsibility and commitment of NPOs, thus utilizing the existing system while trying to simultaneously change it.

The origin of the cooperative model echoes the European tradition of the social economy. Some new cooperatives hope to operate as an alternative economic model, challenging the current socioeconomic state and striving for a new, more inclusive and participatory economy. Within this framework, SEs are seen more as a catalyst for change than as an additional tool by which to resolve specific social problems.

Together, these three models create a young and vibrant field. To date, there are no accurate estimations of the number of active SEs in Israel. In 2012, however, on the basis of a rather “narrow” definition and based on self-identification, their number was estimated at less than 200 (Gidron and Abbou 2012). Most are relatively small in terms of both total budget and number of employees. It is quite likely that their number has increased since this study was completed.

Considering their relatively low numbers, SEs in Israel are provoking a very lively and rich discourse, receiving a lot of public and governmental attention. A large number of infrastructure organizations—including NPOs, private businesses offering training and consulting services, as well as entrepreneurship centers and unique venture capital funds—are dedicated to the promotion of SEs. In a recent development at the level of policy, the government has established a social capital fund to support social business. The fund involves both public and private resources and aims to encourage investments in social businesses that provide employment for a variety of marginalized populations. Further research is needed to fully map the current landscape of SEs in Israel and to better understand this emerging field and the manner in which it combines different global influences with local reality and needs.

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