

Global Compliance: Israel

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Upon first glance, those who visit Israel find that many parts of this tiny Mediterranean country bear a striking resemblance to “suburban America” and exude an energy and momentum comparable to New York City. For a young country (it turns 60 in 2008) in the midst of a bitter conflict, Israel has done exceedingly well. With a large desert and almost no natural resources, Israel has intensively developed its agricultural, industrial and service sectors, becoming a dynamic, technologically advanced market economy with a growth rate of approximately five percent per year.

The country ranked 15th in the World Economic Forum’s 2006-2007 Global Competitiveness Index, reaffirming Israel as a viable and promising market for foreign enterprise and a standout among its peers. Despite an ever-present threat of war and substantial, though diminishing, government participation in the economy, Israel has attracted billions of dollars of foreign direct investment, mainly into its highly innovative technology industry, which has become a hallmark of the Israeli economy. It’s not surprising, therefore, that Intel is the largest private employer in Israel with almost 7,000 employees. Most other global technology players including Microsoft, Cisco, Avaya, Motorola, Freescale, AOL and AMD have significant operations in Israel, focusing primarily on technology-related research and development. With over 3,000 high-tech companies, Israel has the largest concentration of technology brainpower outside Silicon Valley, thanks to a variety of favorable factors, including a skilled and highly educated workforce, excellent education and research systems and a vibrant culture that fosters innovation.

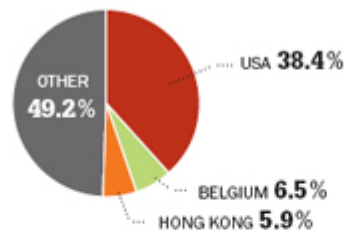
This regular section of Ethisphere Magazine focuses on compliance and ethics in global business. Each issue spotlights a different country, with excerpts from Ethisphere Institute research. Ethisphere Council members can access more detailed country reports. [1] [To learn more click here.](#)

However, assimilation into the Israeli business environment can still be a daunting task. It’s important for companies entering this market to understand the country’s business climate and customs in order to avoid pitfalls and make the transition as smooth as possible.

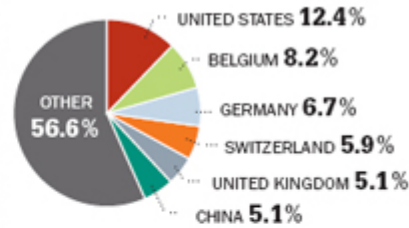
MAJOR INDUSTRIES:

- Aerospace and Defense
- Software
- Advanced Electronics
- Medical Devices
- Fiber Optics
- Telecommunications
- Chemicals
- Food
- Diamond Cutting

TOP EXPORT PARTNERS 2006:



TOP IMPORT PARTNERS 2006:



2007 COUNTRY STATS

POPULATION: 6,426,679

MEDIAN AGE: 29.1 years (male), 30.8 years (female)

LIFE EXPECTANCY: 77.44 years (male), 81.85 years (female)

LANGUAGES: Hebrew (official), Arabic used officially for Arab minority, English most commonly used foreign language, Russian and French are also commonly spoken.

CAPITAL: Jerusalem

LITERACY RATE: 97.1%

GDP PER CAPITA (PPP): \$26,800

GDP (Purchasing Power Parity): \$170.3B

GDP (Official Exchange Rate): \$140.3B

GDP (Real Growth Rate): 5.1%

INFLATION: 2.1%

THE ETHICAL CLIMATE FOR FOREIGN ENTERPRISES



While Israel's culture and value system are similar to those found in Western societies, Israelis are generally harder working than their European neighbors, are less bound by conventional wisdom and rules, love to debate and tend to be perceived as extremely outspoken and opinionated by foreign visitors.

"The truth is that Israelis are opinionated and outspoken because they live in a tiny, hyper-democratic, overly multitasked, intensely multi-cultural, existentially threatened society that has accomplished a tremendous amount of achievements in its mere 60-year 'existence,' and in the face of

dramatic hardships and obstacles," says Gad Cohen, M.D., Founder and President of Transmark Corporation, a "boutique" consultancy that manages business processes between

U.S. and Israeli companies. "Every Israeli knows that, in the back of his mind, and it is part of the national psyche." U.S. and European companies who want to take their business to Israel should be prepared to deal with issues of government bureaucracy, intellectual property protection, lack of standardized business processes and relatively little regard for transparency and accountability.

The multitude of recent scandal-ridden headlines have put corruption at the forefront of discussions in Israel. Transparency International put Israel in 30th place on its Corruption Perception Index, quite ahead of the rest of Middle East, China, Korea, Italy, Russia and most Eastern European countries, but still lagging behind many developed nations.

One of the biggest shocks of entering the Israeli market can be the relative lack of standardization and thoroughness in business processes. To an outsider, the way Israelis conduct business may appear chaotic and disorganized. Wanting to see immediate results for their efforts, Israelis have been known to shortcut their work and sidestep anything from paperwork to meetings to manufacturing. While this apparent chaos may help breed innovation and creativity, in the long run Israeli business would benefit from better processes.

Israeli government "promotes transparency and accountability as essential to business vitality," says David Stangis, Director of Corporate Responsibility at Intel Corporation. "Israel's youthfulness also provides grounds for optimism. As Israel forges the institutions to cope with the problems it faces, there is the opportunity to introduce, at an early stage, the ethical component in their formation."

For example, the major thrust of Transparency International's Israel branch, Shvil, is aimed at urging organizations to develop, adopt and implement codes of ethics that will shape their vision and guide their practices, says Stangis. Shvil recently established the Dove Israeli Center for Transparency and Ethics in Organizations which plans to become a leading academic, instructional and research center, the first of its kind in Israel. "It will develop at the university level, promote academic research on organizational transparency and ethics and host professional development and training programs for those teaching ethics," says Stangis. "Shvil awards people and organizations that have contributed significantly to increase standards of organizational ethics in Israel with the transparency shield."

ETIQUETTE TIPS

YOU SHOULD KNOW BEFORE YOU GO

COMMUNICATION

While English is commonly spoken in the Israeli corporate world and government offices, it will be to your benefit to know and use a few key phrases in Hebrew, such as greetings.

Israelis are notorious for their direct communication style. They most often say exactly what is on their minds and won't hesitate to ask for precisely what they want. As it is common for American, European and Asian counterparts to communicate less directly in an effort to exhibit courtesy and respect, Israeli directness should not be misinterpreted as rude, although it often seems this way. This unique characteristic is reflective of a relationship-oriented culture, where feelings and emotions are most important and business communication can be much like interacting with one's family, where formalities are dismissed and one can act in a direct and frank manner.

Don't be intimidated or offended if your Israeli counterparts interrupt you while you are speaking, reply to questions that are not addressed to them, engage in debate or become downright confrontational. This is all part of the Israeli's straightforward communication style, and they will appreciate it if you adapt a similar no-nonsense approach to business.

Israelis are at the same time extremely friendly and open, at times blurring the line between business and pleasure. This can be to your advantage, as work will often be brought up at social gatherings, but don't be put off by seemingly forward or "inappropriate" questions or close physical contact. It is their attempt to become more familiar with you and help you feel "at home."

Israelis are a proud people, so refrain from using a patronizing disposition. This will make it seem like you don't value their intelligence or skills, and it can severely discourage any progression in business relations.

BUSINESS MEETINGS

Confirm scheduled appointments and make sure that you are punctual. Allow extra time for Israel's heavy traffic. If you realize that you will be late, call and reschedule- your Israeli associates will not appreciate waiting for you.

Provide an agenda to meeting participants that clearly delineates objectives and projected calendars. Establish a clear list of needs and expectations at the onset of business.

Visiting companies will find Israeli business people to be very professional and "Westernized," save for some issues of formality. It is typical for Israeli firms to be laid back and relaxed, not to stand on ceremony, and this extends to the dress code. In general, you can expect the business dress to be much less formal than in European culture, with jackets and ties reserved for very formal meetings or for meetings with senior executives, bankers, prominent lawyers and high ranking public officials.

FGIF TGIT

Most Israeli businesses operate Sunday through Thursday, with minimal appointment availability on Friday morning. Jewish tradition celebrates the Shabbat, or day of rest, on Saturday, and as such almost no business is conducted on Saturdays in Israel. You'll find all public offices closed on Saturday, along with most private businesses, with limited availability for public transportation.

WINING AND DINING

Refreshments and meals are a common and important element of Israeli business interaction. Lunch is often the main meal of the day, and is usually larger than breakfast or dinner.

Israelis are very sensitive to their guests' culinary satisfaction, so make sure to communicate your preferences ahead of time and your enjoyment following the meal.

Israel has many excellent restaurants, and being mindful of dietary preferences of Israelis will save you a lot of embarrassment. Observant Jews will likely not be able to eat in a restaurant or home that is not kosher. If you are the one making the meal arrangements, find out in advance if your guests require kosher food and book the restaurant accordingly. You shouldn't expect certain things in a kosher restaurant such as milk and meat in the course of the same meal, pork, and certain types of seafood.

WHO'S THE BOSS?

It's a common saying in Israel that "Every Israeli is a manager." Israel is a very egalitarian society and Israelis generally have little regard for chains of command. Not only are corporate hierarchies far less formal, structured and prevalent than in the West and other countries like Japan, but each employee considers themselves as an individual asset as opposed to a part of a team.

FIVE COMPLIANCE AND ETHICS ISSUES TO CONSIDER

01 // ARAB BOYCOTT OF ISRAEL

The boycott dates back to December 2, 1945, when the Arab League formally declared, "Jewish products and manufactured goods shall be considered undesirable to the Arab countries." All Arab "institutions, organizations, merchants, commission agents and individuals" were called upon "to refuse to deal in, distribute, or consume Zionist products or manufactured goods." The boycott, as it evolved after 1948, is divided into three components. The primary boycott prohibits direct trade between Israel and the Arab nations. The secondary boycott is directed at companies that do business with Israel. The tertiary boycott involves the blacklisting of firms that trade with other companies that do business with Israel.

DEAL WITH IT

The United States has taken numerous measures to combat the boycott at home and abroad. It directly forbids U.S. companies from complying with any part of the Arab boycott with legislation like the Anti-boycott Act. It is good practice to ensure that all your salespeople operating in the Arab world, as well as anyone else who would be responding to business inquiries from the region, be familiar with the requirements of the Anti-boycott Act through training, especially since U.S. companies are required to report a request to comply with the boycott. A forceful response to a customer's request that the boycott be honored is usually enough for the request to be dropped.

02 // REGIONAL TRAVEL

Most Middle Eastern and North African countries have no diplomatic relations with Israel, except Jordan, Egypt, Turkey and Morocco. This means that you will find it hard to travel in the region and you may even be unable to call Israel from some Arab countries. Keep in mind that you may be refused entry in some countries if your passport has an Israeli stamp of visa.

DEAL WITH IT

Avoid traveling to Israel and other Middle Eastern countries in one visit. If you do plan to visit Arab countries subsequently, be sure to ask Israeli border control not to stamp your passport. Israel is not exactly at the top of popularity ratings among its Arab neighbors, and therefore many U.S. and European companies don't even put Israel under the "Middle East" umbrella in their regional operating structure, but instead keep it separate or within "Europe."

03 // CUTTING CORNERS

Israel's comparative inexperience with established business processes and corporate policies is sometimes demonstrated in the tendencies to take shortcuts if available. From skirting the mounds of paperwork typically involved in major business transactions to cutting out "extra" or "unnecessary" steps in quality control, Israelis' sense of urgency has been known to frustrate visiting companies whose corporate culture has rigorous standardization and that encourages following due process.

DEAL WITH IT

Though many Israeli business practices can seem to mirror those in the United States and Europe, this is one area where no assumptions should be made. To that end, be clear with your Israeli counterparts the expectations and requirements dictated by your own company, manufacturers and distributors when it comes to new business. Be prepared to counter arguments for the desire to push through processes quickly, as this is where Israeli business is drastically different from what Western companies are accustomed to.

04 // INTELLECTUAL PROPERTY

Intellectual property protection remains relatively weak in Israel, due to insufficient legislative measures and a business culture that favors knowledge-sharing. Many Israeli entrepreneurs are scientists and engineers who used to work for the defense or intelligence establishment, or premier research and academic institutions such as Technion or the Weitzman Institute. Another common problem is employees going to work for a competitor and taking the knowledge or trade secrets with them.

DEAL WITH IT

Improvements have been made in Israel in areas such as copyrights and trademark enforcement, but the changes are still lackluster in comparison to the regulations enforced in the United States. Take it on as your own responsibility to be proactive about protecting your company's proprietary and confidential information. Such measures may include: 1) Drafting an airtight confidentiality and non-disclosure agreement; 2) Requiring that these, along with non-compete agreements, are signed by each employee; and 3) Conducting periodic audits.

05 // BUREAUCRACY, CORRUPTION AND TRANSPARENCY

Although diminishing, government participation in the Israeli economy is relatively high compared to its counterparts in Europe or North America. This is in part due to security reasons, e.g. major defense related companies, such as Israel Aircraft Industries, have to be state controlled. Other reasons are Israel's liberal and socialist roots. As a result, government bureaucracy is excessive and entrenched. Those familiar with doing business in Europe will find it similar to Spain or Italy. The consequences for this tend to be cronyism and bribery, and there are few deterrents to discourage potential wrongdoing.

DEAL WITH IT

Evaluate the Israeli government's presence in your industry, from its influence on pricing, to permits and licenses, to trade restrictions and procurement rules. Be sure to secure written approvals and commitments instead of relying on oral promises. Adopt policies that speak to specific acts (such as improper gift giving) and associated penalties. Ensure that the policy is implemented effectively from day one (and not used just as a document), including routine training and a walk-the-talk or role-modeling. The proactive, direct and clear approach adopted by many U.S. and European firms operating in Israel has certainly brought some positive change to the ethical business climate.

For example, Intel's experience is particularly interesting for U.S. companies with local workforce- their code of conduct applies to all Intel sites around the world. "We have a solid control and compliance infrastructure in place, and hold annual risk mapping and risk mitigation cross site activities to detect potential gaps. We promote ethics awareness as a value at our Israeli site- that is how we publicize our ethics policies," says David Stangis, Director of Corporate Responsibility at Intel.

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