The State of Business Ethics in Israel: A 'Light Unto the Nations'?

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ABSTRACT. Whether the nation of Israel has become a 'light unto the nations' in terms of ethical behavior among its business community remains in doubt. To examine the current state of business ethics in Israel, the study examines the following: (1) the extent of business ethics education in Israel; (2) the existence of formal corporate ethics program elements based on an annual survey of over 50 large Israeli corporations conducted over three years (2006-2008); and (3) perceptions of the state of business ethics based on interviews conducted with 22 senior Israeli corporate executives. In general, and particularly as a young country, Israel might be considered to have made great improvements in the state of business ethics over the years. In terms of business ethics education, the vast majority of universities and colleges offer at least an elective course in business ethics. In terms of formal business ethics program elements, many large companies now have a code of ethics, and over time continue to add additional elements. Most respondents believed they worked in ethical firms. Despite these developments however, there appears to be significant room for improvement, particularly in terms of issues like: nepotism/favoritism; discrimination; confidentiality; treatment of customers; advertising; competitive intelligence; whistleblowing; worker health and safety; and the protection of the environment. When compared with the U.S. or Europe, most believed that Israeli firms and their agents were not as ethical in business. A number of reasons were suggested that might be affecting the state of business ethics in Israel. A series of recommendations were also provided on how firms can better encourage an ethical corporate culture.   The paper concludes with its limitations.

KEYWORDS: corporate ethics programs; business ethics education; business ethics organizations; cross-cultural management; Israel

The State of Business Ethics in Israel: A 'Light Unto the Nations'?

Introduction

According to the Bible, the nation of Israel should eventually be considered a "light unto the nations", in other words, the nation should act as an ethical role model to others. Has Israel fulfilled this mission, especially in terms of its business practices? Israel, now with a population of over seven million, including well over 1 million Arab citizens, declared independence as a Jewish state in 1948. Over the years the tiny country, in addition to surviving several wars threatening its very existence, has in many ways become a significant business power relative to its size (see Senor and Singer, 2009). Israel's GDP in 2007 was approximately US$162 billion making Israel the 43rd strongest economy in the world (World Bank, 2008). In terms of innovation, Israel was fourth in the number of patents registered in the U.S. in 2006 and second in Europe in 2007 (FICC, 2008). According to the rankings of the *World Competitiveness Yearbook* (Wrobel, 2010), Israel was ranked 17th in competitiveness (i.e., economic performance, government efficiency, business efficiency, and infrastructure) out of 58 countries, leading the UK (22nd) as well as France (24th). U.S. investor Warren Buffet demonstrated his support for the strength of the Israeli economy through his US$4 billion dollar investment in the Israeli firm Iscar in 2006. On the occasion of the nation's 60th birthday, the *Economist* magazine (2008, p. 4) noted some of the positive attributes of Israel's economy and society:

> Meanwhile, the high-tech boom that began in the 1990s has not only survived the intifada [i.e., Palestinian uprising] but gone from strength to strength, fuelling impressive economic growth. Tourism is rebounding and property prices have

shot up. The massive influx of immigrants from the former Soviet Union is melting slowly but smoothly into Israeli society. Even some of the social conflicts of the early years--between religious and secular, and between eastern and European Jews--seem to be settling down.

Despite all of the positive stories regarding the growth of Israel's economy however, there is a problematic side as well. The *Economist* magazine (2008, p. 4) also states:

On the other hand, economic growth [in Israel] has widened wealth gaps rather than easing poverty. And growth will slow inexorably unless several serious structural weaknesses are fixed, including a faltering education system, low workforce participation and a sometimes sclerotic public sector. A volatile political system makes these reforms hard to achieve.

Beyond the current state of Israel's economy, perceptions continue regarding the difficulties of doing business in Israel due to government bureaucracy and red tape. In fact, Israel has been referred to as a "bureaucratic superpower" (Lashem, 2008). According to the World Bank's report "Doing Business 2008" (which involved a survey on the ease of doing business in 178 different countries), some of the difficulties in Israel relative to other countries include the significant time it takes to open a business, register a property, legally enforce contracts, or even just to shut down a business (Lashem, 2008).

At the same time, there may be preconceived notions among many non-Israelis (and Israelis themselves) that in Israel, there simply is no such thing as business ethics. Many Israelis still remember the bank scandal of 1983 during which time the stocks of the four

largest banks collapsed following the manipulation of their share prices leading to the nationalization of the banks (Marcus, 1994). Another significant national scandal emerged when former Israeli general Rami Dotan was sentenced to 13 years of jail in 1990 for embezzling tens of millions of U.S. military aid dollars from a General Electric contract (Brinkley, 1991). In 2003, the importer Remedia Inc. was involved in Israel's worst consumer safety scandal when three babies died due to infant formula being sold without vitamin B1 (Steinberg, 2003).

More recent Israeli business scandals continue to highlight the possible need for increased ethics such as the competitive intelligence - Trojan horse computer program scandal among numerous Israeli firms (e.g., Cellcom-Orange, Yes-Hot, see MSNBC, 2005), the practice of executives (e.g., Mercury, Comverse) being compensated through backdated stock options (see Yom Tov, 2006), and the exporting of products (e.g., HP-Israel) into the gray market (see Shachaf and Fishel, 2006). A major real estate firm, Heftsiba, collapsed in 2007 leaving hundreds without homes after embezzlement and fraud by the CEO Boaz Yona. In a plea bargain agreement, Yona agreed to serve 7 years in jail for his improper actions (Zarchin and Raz, 2008). One of Israel's wealthiest individuals and best known businessmen, Arcadi Gaydamak, despite his well publicized philanthropic acts, remains under suspicion for his previous business dealings in Angola (MoneyWeek, 2007). Other corporate ethics headlines reported by the Israeli newspaper *Haaretz* include the following:

- "Hamashbir slapped with NIS 150,000 fine for misleading sales campaigns" (July 2, 2008);
- "Banks sued for failure to pay interest on checking accounts" (May 15, 2008);

- "Companies convicted of selling salt water as cure" (May 13, 2008);

- "Securities Authority report slams internal audits at publicly traded firms" (May 1, 2008);

- "Officers of El Al, Bezeq, Hapoalim get 12 months for bribery" (April 3, 2008).

Israeli corruption also extends into the Israeli government, often involving the business community. Members of the Israeli Knesset (i.e., government), including a number of Knesset cabinet ministers, have resigned or even gone to jail over improper dealings with the business community over the last number of years (Myre, 2006). One scandal involves alleged bribes or improper payments to Prime Minister Ehud Olmert by American businessman Morris Talansky, leading to Olmert's resignation in 2008 (Bronner and Cohen, 2008). In what may be the biggest corruption scandal in Israel's history, massive bribes were allegedly paid by builders to various government officials in order to obtain benefits and approvals towards a major real estate construction project (called 'Holyland') in Jerusalem (Lappin, 2010).

In addition to various ethical scandals, other rankings and studies suggest that there is great room for improvement when it comes to business ethics in Israel. Israel ranks as the 32rd least corrupt nation (down from 16th in 2001) out of 180 countries (see Transparency International, 2009). Israeli exporters were rated 18th out of 30 countries (U.S.-9th) "most prone to paying bribes" to foreign customers (see Transparency International 2006). Despite perceptions of high levels of corruption, it took Israel until the end of 2008 to sign the OECD's 'Anti-Bribery Convention' (although it was the first country in the Middle East to do so, see OECD, 2008).

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In terms of business ethics at the executive level, there may also be room for improvement. For example, Israel is ranked 43rd out of 61 countries (U.S.-25th) in terms of "credibility of managers" (see IMD, 2006). According to data released by the Israeli Police: "The damage caused to the Israeli economy by white collar crimes, which are defined by the law only as fraud, totaled over NIS 6.8 billion in 2007." The average annual cost of white collar crime: "…ranges between NIS 28 billion and NIS 30 billion, which is equivalent to 4.5% of the country's entire GDP…While white collar crime constitutes 2% of all crimes, it causes about one quarter of all damage to the state" (Lashem, 2008).

If one combines the bureaucratic difficulties of doing business in Israel with the need to deal with what might be considered a lack of Israeli business ethics, it may simply not be worth doing business in Israel or with Israelis for many non-Israeli firms or investors. At the same time however, over 100 Israeli corporations are now listed on the New York Stock Exchange, Nasdaq, or AMEX, second only to the number of Canadian companies on US exchanges. This only reinforces the need for many Israeli firms to ensure high levels of legal and ethical behavior (Gedalyahu, 2008). All of this ultimately raises the question, what is actually known about the state of business ethics in Israel? Are preconceived notions about the lack of Israeli business ethics actually accurate, or mistaken?

Unfortunately, to date, Israel has not been properly assessed in terms of business ethics activity, while many other countries or regions have been. One of the more significant attempts consists of a series of papers published in a special edition of the *Journal of Business Ethics* in October 1997. The countries or regions covered include:

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Eastern and Southern Africa, South Africa, Australia and New Zealand, Central and Eastern Europe, China, India, Japan, Latin America, Russia, Northern and Western Europe, Middle East, Philippines, and North America. Blackwell's *Encyclopedic Dictionary of Business Ethics* (Werhane & Freeman, 1997) provides summaries of business ethics activities in Africa, Australia, Canada, Europe, Great Britain, Israel, Japan, New Zealand, Russia, South Africa, and South America. While Izraeli (1997a; 1997b) does discuss the state of business ethics in Israel in each of these two publications, his review of Israel (1997a) is only one part of an overview of the entire Middle East region while his other review (1997b) only briefly touches on developments (or lack thereof) in both Israeli academia and the business world. Additionally, Izraeli's reviews took place over a decade ago in 1995.

Several studies have been conducted however comparing ethical decision making and attitudes towards business ethics between Israeli and non-Israeli students and managers (Preble and Reichel, 1988; Izraeli, 1988; Small, 1992; Jackson and Artola, 1997; Kaufman, 1985; Sims, 2002; Sims and Gegez, 2004). In some cases, Israelis appeared less ethical in their attitudes. Preble and Reichel (1988, p. 943) found that the Israeli students felt more strongly than the American students that "the only moral of business is making money" and that "moral values are irrelevant to the business world."

In other studies however, Israelis appeared more ethical in their attitudes. For example, Small (1992) found that Western Australian students were more in agreement than the Israeli students that it is acceptable to cheat an automobile insurance company. Jackson and Artola (1997) found that managers from Israel believed that "accepting gifts/favours in exchange for preferential treatment" is more unethical than German and

American managers. Sims (2002, p. 27) found that "…US employees are more likely to deceive others for personal gain than the Israeli employees. In addition, the results indicate that US employees were more likely to perceive organizational support for the use of deception for personal gain than were the Israeli employees."

Other cultural studies have found differences with respect to Israel versus other countries. Hofstede's research focuses (1997) on different dimensions of international cultures, with each attribute potentially affecting ethical attitudes and behavior. Hofstede found that compared with the U.S., Australia, and South Africa, Israel is considered a low 'power distance culture' (i.e., Israelis have a lower level of acceptance of unequal power), moderately 'individualistic' (i.e., Israelis are more willing to speak one's mind), moderately 'feminine' (i.e., social gender roles overlap), and with a strong 'uncertainty avoidance culture' (i.e., Israelis have a lower tolerance of deviance and innovation and a stronger emotional need for rules). This latter finding of strong 'uncertainty avoidance culture' in Israel appears however to be inconsistent with the findings of others, who suggest that Israelis are generally highly innovative and in fact tend to push back on rules (or even break rules if deemed necessary) (see Senor and Singer, 2009). In another Hofstede based study, it was found that "…ethics are not as strong a component of the business environment for…Israel as they may be for Jamaica, the USA and Western Australia" (Sims, 2006, p. 107).

In terms of other empirical research related to Israeli business ethics, several studies find that ethics programs (e.g., ethics codes and training) are not the most important factor in influencing employee's behavior. Izraeli (1988) found that the best predictor of respondents' (i.e., Israeli managers) ethical behavior was the 'what peers do' category;

and that the direct impact of the existence of a clear organizational policy (i.e., code) on the level of ethical behavior was insignificant for nearly all situations. Adam and Rachman-Moore (2004) conduct a survey and interview employees of an Israeli subsidiary of a U.S. based high technology company and find that informal methods ('social norms' and 'manager sets an example') are more important in terms of effectively implementing a code of conduct than formal methods (e.g., ethics training). Another study finds that the use of laws and regulation is preferable to self-regulation (i.e., codes of ethics) in order to protect customers of Israel's banks (Deutch, 2004).

To date, no interview-based study has been conducted involving perceptions of Israeli executives on the state of business ethics in Israel. It is proposed that such research might provide better insight into the Israeli business ethics mentality. Researchers continue to call for additional examination of business ethics activity across different countries leading to cross-national comparisons and a greater understanding of cultural norms affecting business behavior (Schwartz and Weber, 2006).

To better address the paucity of research on business ethics in Israel, the following paper will attempt to assess the state of business ethics in Israel. While the scope for measuring the state of business ethics activity in a given country can vary greatly, for the purposes of the study, "business ethics" is broadly defined as: "…any formal (i.e., identifiable) activity taking place among individuals, organizations, or other entities operating within or related to a business context that involves the explicit interaction and/or application of ethical (i.e., moral) standards" (Schwartz and Weber, 2006, p. 5). While several different measures of national business ethics activity could be used, according to business ethics experts responding to Schwartz and Weber's (2006) survey,

the three most important sectors of formal business ethics activity include (in order of importance): the business sector (e.g., formal ethics programs); business ethics organizations; and the academic sector (e.g., business ethics courses).

Based on these core dimensions of national business ethics activity as proposed by Schwartz and Weber (2006), the study utilizes and examine multiple data sources: (1) the extent of business ethics education among Israeli universities and colleges as well as the activities of Israeli business ethics organizations; (2) the existence of formal ethics program elements based on an annual survey of over 50 large Israeli corporations conducted over three years (2006-2008); and (3) perceptions of the state of business ethics based on interviews conducted with 22 senior Israeli corporate leaders. The paper concludes with its limitations.

By developing a general picture of the state of business ethics in Israel, several stakeholders groups including employees, managers, investors, and customers in both Israel and those doing or intending to do business in Israel may have a better understanding, appreciation of, and respect for cross cultural ethical differences (Sims and Gegaz, 2004). According to Whipple and Swords (1992), cross-cultural ethics research "…can be informative in the development of education and training programs for prospective business managers with diverse cultural backgrounds" (p. 671). Researchers as well, especially those engaged in cross-cultural ethics research, can potentially gain a deeper understanding of business ethics from the perspective of Israeli executives. The study is one of the first attempts to address the current lack of research on Israeli business ethics through multiple data sources, hopefully setting the stage for future empirical research.

Israeli business ethics education

Recent studies conducted on the state of management education in Israel conclude that many deficiencies exist. Part of the recommendations include enhancing business education on the topic of business ethics. One report indicates that: "Corporate corruption has been rampant in many countries, spectacularly but not exclusively in recent decades. If Israel is to be a leader in management education, it must find a way to effectively teach integrity and values in business. Many programs have courses in business ethics, but these are mixed successes" (Malag, 2007, p. 13).

A review of Israeli academic institution websites indicates that in fact almost all Israeli universities and private colleges offer a course in business ethics. Tel Aviv University, after not offering a business ethics course for several years, now has a mandatory class for its MBA students as of 2008. The Technion (Israeli Institute of Technology) also has a mandatory MBA business ethics course. Other universities offering elective business ethics courses include the Open University (an online university), Haifa University (for its undergraduate program), and Ben Gurion University (which has the only chair of business ethics in Israel). Bar Ilan University offers the course as part of its International MBA Program offered in English (but not as part of its regular MBA Program in Hebrew). The Hebrew University of Jerusalem used to offer the course for its MBA Program, however it no longer does so. Private colleges, such as the Interdisciplinary Center of Herzliya, the College of Management in Tel Aviv, Ono Academic College, and the Jerusalem College of Technology, now also offer a course in business ethics. There are also business ethics courses taught in some of the Israeli

executive MBA programs, such as Tel Aviv University and Haifa University. There are probably less than a dozen faculty members who teach business ethics full time in Israel.

In addition to academic courses, there are now several organizations that help to facilitate business ethics education in Israel. The Business Ethics Center of Jerusalem, founded in 1992, has had moderate success in attempting to introduce the subject of business ethics (from a Jewish perspective) into the Israeli high school curriculum (Lichtman, 2008). In addition to its various educational activities, the center also contributes a weekly column on business ethics related topics in the newspaper the *Jerusalem Post*. Transparency International Israel (formerly known as "Shvil"), founded in 1993, conducts seminars for business ethics professionals, and conducts an annual award for individuals and organizations that are considered leaders in implementing ethical behaviour (i.e., the "Transparency Shield Award"). Maala (i.e., the Israeli chapter of Business for Social Responsibility), founded in 1998, evaluates companies on the Tel Aviv Stock Exchange as part of its "CSR Index." It also holds several training seminars throughout the year as well as an annual conference on corporate social responsibility. Mishkenot Sha'ananim (the Jerusalem Centre for Ethics), founded in 1997, also occasionally holds educational seminars on business ethics-related topics.

Israeli business community: Formal ethics programs

While several empirical studies have been conducted on the existence of corporate ethics programs in various countries around the world (e.g., Melé et al., 2006; O'Dwyer and Madden, 2006; Svensson et al., 2006), no academic study has reported on the extent of corporate ethics programs in Israel. An annual survey conducted by the Israeli

organization Maala (i.e., Business for Social Responsibility) leading to a CSR ranking of Israeli companies does however include a 'business ethics' component that focuses on the existence of ethics program elements. The survey was first conducted in 2006 (49 companies participating), again in 2007 (53 companies participating), as well as 2008 (60 companies participating). While only very basic information is publicly reported on Maala's website (Maala, 2008), the organization gave the researcher access to its more detailed survey data. The sample involves only those companies listed on the Tel Aviv stock exchange, or representing Israel's largest corporations (i.e., annual profit greater than US$100 million). The business ethics component of the survey examines such ethics program elements as: codes of ethics; ethics training; ethics hotlines; ethics officers; performance assessment; and auditing of program effectiveness. These elements might be considered critical components of any formal ethics program, and reflect those found in various U.S. regulations such as the *Sarbanes-Oxley Act* (2002); the U.S. Federal Sentencing Guidelines for Organizations (1991; 2004 Amendments); and the New York Stock Exchange and Nasdaq Regulations (2003). The results of the survey over the past three years are as follows:

- *Codes of Ethics*: Many have suggested that a code of ethics is the critical component of a formal ethics program (Schwartz, 2001). In terms of Israel, the percentage of large companies with codes appears to be increasing. While in 2006 64% of Israeli companies already possessed a written code of ethics, the percentage increased up to 88% in 2008.

- *Training*: In terms of ethics training that guarantees implementation of the code among all levels, the percentage has also increased, from 44% in 2006 up to 73% in

2008. When asked "Is the training program fully operated in practice" the percentages increased from 36% in 2006 to 71% in 2008.

- *Ethics Hotlines*: With respect to hotlines (i.e., "a mechanism or procedure that allows workers to report unethical behavior"), the percentages increased from 53% in 2006 up to 81% in 2008.

- *Ethics Officers*: In terms of someone holding a position bordering on being considered a compliance or ethics officer (i.e., "a superior officer in charge of implementing the code"), the percentages increased from 50% in 2006 up to 75% by 2008. It should be noted however that it's not clear whether such a person can truly be defined as a compliance or ethics officer, and may only represent a part-time role for the employee.

- *Assessment*: While only 30% of firms had "a written procedure for ethics assessment of high level workers" in 2006, the percentage increased to 55% by 2008. While only 11% of firms had a procedure that "connects good ethics practices to worker's performance assessment and feedback" in 2006, the percentage increased to 36% by 2008.

- *Auditing*: Finally, 51% of firms in 2008 (19% in 2006) conducted "a thorough check-up of the ethics program's effectiveness" in the last two years. An even higher percentage of firms (76% in 2008) "have mechanisms and procedures to deal with events of unethical behavior and to prevent similar events from happening," up from 47% in 2006.

Figure 1 below summarizes the percentage changes in key ethics program elements among the respondent companies over the last three years:

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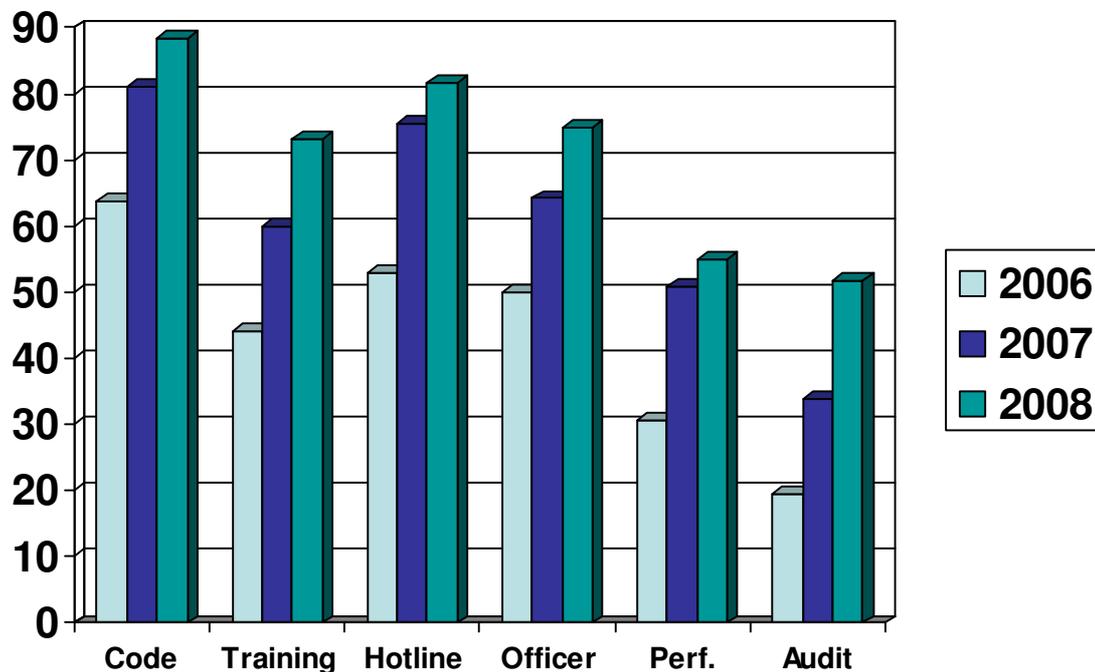
Figure 1: Israeli Corporate Ethics Programs Elements (2006-2008)

When one compares the extent of corporate codes of ethics found in Israel (88%) with several other countries like Ireland at 70% (O'Dwyer and Madden, 2006), Spain at 65% (Melé et al., 2006), or Sweden at 56% (Svensson, 2006), it appears that Israel may have reached proximity or even surpassed many developed nations. In fact , in terms of the 200 largest companies in the world, only 52 percent possess a code of ethics (Kapstein, 2004). What also becomes apparent is that over the last three years, there has been a significant increase in the percentages of Israeli firms possessing key ethics program elements. A review of the firms receiving the highest scores in the 'business ethics' category in Maala's survey from 2007 suggests that Israeli subsidiaries of multi-national firms (e.g., HP-Israel, Intel-Israel, Motorola-Israel) as well as Israeli banks (e.g., Bank Hapoalim, Leumi Bank) tend to possess the most comprehensive ethics programs. What

isn't clear at this point in time however is whether the introduction of the formal ethics program elements are making any difference with respect to Israeli employees' legal or ethical behavior., and are still primarily the result of Israeli firms public relations efforts.

Perceptions of Israeli business ethics leaders

In order to better assess the state of business ethics in the country, twenty-two interviews were conducted primarily with senior leaders of the Israeli business community representing seventeen different companies. The qualitative, in-depth, semi-structured interviews attempted to initially explore executive perceptions regarding a series of business ethics issues.

The interviews took place in Israel primarily in the Tel Aviv area from February to May 2008. The average interview lasted 63 minutes. The range for the duration of the interviews was 39 minutes to 86 minutes. Nineteen of the twenty-two interviews took place in each of the respondent's place of work. Two of the interviews took place in the respondents' homes, and one at a café. All of the interviews were recorded and professionally transcribed. All of the interviews were conducted by the researcher. The data sample was obtained through the 'snow-ball' technique, i.e., initial interviews based on the researcher's personal contacts led to additional senior executive names being provided.

In terms of the sample of respondents, sixteen of the twenty-two respondents were men, while only six were women. Of the twenty-two executives, nine held the most senior positions of their firm as either CEO, Managing Director, Chairman, or Founder of their firms; nine held positions as either Vice President, Director, or Partner, and four

considered themselves middle-level managers. Respondents were born in the following countries: Israel (13); UK (3), US (2); Canada (2); Hungary (1); and Argentina (1) although four of the nine non-Israelis moved to Israel when they were younger than eighteen. In terms of work experience, nine possessed extensive non-Israeli work experience, while six of these had worked in the U.S. In terms of education, seven respondents had MBAs, while two of these had taken a business ethics course but did not remember anything about the course. Thirteen of the respondents had served in the Israel Defence Forces.

The sample of seventeen firms consisted of the following: banks (2); investment firms (6); manufacturing (4); food (1); insurance (1); high tech (1); financial exchange (1); and accounting/consulting (1). Four of the seventeen firms were Israeli subsidiaries of U.S. companies, while one was owned by a European multinational firm. The number of employees at the seventeen respondents' firms ranged as follows: over 1,500 employees (2); 300-1,500 employees (12); and under 300 employees (3).

The semi-structured interviews were based on an exploration of several key issues: (1) respondents' own definitions of business ethics; (2) perceptions of whether specific ethical issues are a problem; (3) perceived reasons for unethical behavior; (4) importance of ethics versus the bottom line; (5) differences between Israeli and non-Israeli business ethics; (6) possible reasons for those differences; (7) current steps and recommendations to encourage ethical behavior; and finally (8) past improvements and future expectations for the state of business ethics in Israel.

Definitions of Business Ethics: As a starting point, Israeli executives were asked for their own definition or understanding of the term 'business ethics'. The responses

included such notions as: being able to differentiate between what's rights versus wrong; what's legal or illegal; acting in a correct and proper manner; expected behavior; avoiding misconduct; acting in a professional way; acting so that you would not be embarrassed to read about it in tomorrow's news headline; acting beyond reproach; being responsible for society; treating people well; treating people with respect; acting in the interests of others; following the rules of the game; honesty; integrity; transparency; and fairness.

Importance of Business Ethics: When asked if acting ethically or having an ethical reputation can be important to the success of the business, almost all respondents indicated positively, whether in respect of customers or employees. The main point seemed to be that while ethical reputations might not necessarily lead to more business, unethical reputations could serious affect the continuation of or development of new business. There were a few respondents however who indicated that in Israel, most clients focus on other factors besides ethical reputations when choosing where to do business.

Several examples were given of how firms demonstrate that ethics is more important than the bottom line, including wealthy clients being turned away due to ethical concerns. On the other hand, many respondents indicated that for their firms, financial performance was really the primary concern. It seems that while ethics within the banking sector has improved, other types of industries (e.g., real estate, manufacturing) may remain more susceptible to unethical behavior.

Specific ethical issues in the Israeli context

A series of specific ethical issues most often discussed or covered by multinational corporate codes of ethics (Berenbeim, 1999) were discussed with the respondents. Respondents were asked to indicate their perceptions of whether the issues were in fact problems at their firms or possibly other firms, and to give examples when possible. The issues discussed include: nepotism/favoritism; discrimination; sexual harassment; gifts and entertainment; theft/expense accounts/use of company equipment; confidentiality/insider trading; privacy; treatment of customers; deceptive advertising; competitive intelligence; accurate financial records; whistleblowing; as well as health/safety/environment.

Nepotism/Favoritism: Many have suggested that nepotism or favoritism is a problem in Israel. One study found that 25% of all workers were related in government companies (Lashem, 2007). In terms of the extent of nepotism or favoritism taking place among Israeli businesses, the respondents overall seemed to perceive that while it certainly remains a problem, particularly among certain specific Israeli companies, the problem has improved over the last number of years. From the respondents' perspective, the main problem areas continue to be the ports, government companies, the banks, Bezek (i.e., the national phone company), kibbutz companies (i.e., a collective farming or industrial community), and smaller companies. Friendships formed during one's army service certainly seemed to play an important role in potential hiring or supplier decisions: "…probably if they were in a certain [army] unit, or knew someone then it probably helped them [get a job]. And historically Israel, also you know, is known as the country with vitamin 'p', you know, protexia [i.e., connections]. That's the way to get

in…it's more of a problem here then in other countries." Other relationships formed due to one's youth movement, city, or even political party could also lead to biased hiring decisions. Most respondents felt however that nepotism or favoritism did not exist in their companies, but most likely in other Israeli companies. While it continues to exist for lower level positions such as factory workers or truck drivers, even senior positions might be affected. One CEO commented: "…the CEO that is going to replace me was in the army with the chairman of the board. That's where they get to know each other. He was recruited to the company because of another reason, he's a very successful CEO of a [company] in Israel, but if he wouldn't know him twenty years ago, the chances are it's not [going to happen]." If favoritism did exist, it tended to be more indirect (e.g., "the boss might state a preference") than direct. Many felt that recommending a friend for a position was completely acceptable. One respondent indicated that to prevent any possible nepotism, their firm actually had a 'no family member' policy since the 1970s.

Discrimination: With a multi-ethnic society, and a series of potential conflicts and lack of tolerance and understanding between the various religious groups (e.g., Jewish, Christian, Moslem), ethnic (e.g., Ashkenaz and Sephardic), and national groups (e.g., Ethiopian, Russian), Israeli is ripe for potential discrimination within its workforce. When asked about the extent of discrimination, most respondents indicated that while they believe it occurs, only a few had actually observed it. The major industries where problems appeared to be worse are with respect to the high tech sector as well as the financial services sector. Those groups facing the greatest potential discrimination include: Israeli Arabs; Ethiopians; pregnant woman; the ultra-Orthodox (i.e., religious Jews), and the physically disabled. Specific areas where discrimination of Israeli Arabs

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was deemed ethically acceptable included anything related to defence, food manufacturing (e.g., poisoning), or for any overseas shipping (e.g., due to the risk of explosive devices). Companies located in the Tel Aviv area also seemed more prone to discriminate against Israeli Arabs. In terms of pregnant women, one respondent indicated: "I think it's usually a problem when you're entering the organization. The person interviewing you will think, is this woman going to become pregnant in the next whatever, in the short term. Is it going to happen in the next year, two years, three years? I think that's where it is an issue. But once you're in the organization, I don't think it's an issue any more. But you are expected to come back as soon as possible." Many respondents felt however that discrimination was less of an issue than in previous years. If discrimination did continue to take place, reasons were given such as the existence of a weak applicant pool for a particular group, or the lack of desire among companies to "rewire" their approach or hiring process. Some companies appeared however to be performing better than others in addressing discrimination. The CEO of a major investment firm indicated that fifty-five percent of his firm's employees were female while an incredible sixty percent of the executives were female. His reasoning was as follows: "I think we're trying to give a lot of employees kind of a feeling of [a] warmer, homey place. And I think that attracts sometimes more women. I think we found women in the financial services…to be better, especially [in terms of] understanding client's needs and servicing."

Sexual Harassment: The issue of sexual harassment seems to stand-out over the years as being problematic in terms of Israeli society. One study found that since the enactment of sexual harassment laws in 1998, sexual harassment complaints have been

filed in eighty percent of Israeli organizations (Bior, 2008). In a survey by Israel's Industry, Trade and Labor Ministry of 1,000 women cutting across various industry sectors, 40 percent of Israeli women reported being sexually harassed at work. Three-quarters of these women indicated that the offender was a senior employee at the company, with 64 percent saying that the harassment had happened more than once (Friedman, 2010).

Respondents suggested that unlike the existing situation in the United States, the reason for the problem in Israel appeared to be due to the informal nature of the country, the friendlier and warmer disposition of the Israel people, and the consequent lack of appropriate boundaries. For example, it may be that revealing attire (which may or may not be a contributing factor) is much more acceptable in the Israeli workplace when compared to Western countries, where such attire would be considered unprofessional. The respondents believed that while a serious issue before, due to a series of sexual harassment scandals among senior military leaders and the President of Israel himself, Moshe Katsav, there was greater awareness and a 'changing of the rules' leading to a decline in sexual harassment activity. In fact, some executives expressed their major paranoia regarding accusations of sexual harassment, and the need to build extreme fences around one's behavior, such as avoiding kissing employees for any reason (e.g., during a party to celebrate a promotion). One CEO even expressed his concern about being alone in an elevator (other than a glass elevator) with a female employee:

> …in the bank there were…two transparent elevators and one which is used for passengers and freight which is not transparent. When I had the choice to travel…I used the transparent [elevator]. Because, I mean, you go to an elevator

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that two floors down some female employee comes [in], and what happens if she goes out and says that I touched her? It's ridiculous, but…I mean, you are immediately suspicious [and] suspected. Immediately. It's her word against your word…

Gifts, Kickbacks, and Bribery: In terms of giving and receiving gifts and entertainment within the business community, the situation appears to have improved in Israel over the last few years. Most respondents indicated that their companies had clear and well understood policies on gifts, which appear to be respected overall. Such policies typically included reporting all gifts. In some cases new government regulations had been enacted as well regarding gifts in the financial sector. Despite the policies, most respondents indicated that they continued to receive modest gifts from suppliers (particularly wine and gift baskets around the holidays of Passover and Rosh HaShanah), and to be taken out to football (soccer) matches or for expensive dinners. Respondents themselves also continue to take out clients or potential clients for expensive dinners. One respondent comments: "…[In] any relationship you need [to be] face-to-face and a lunch or a dinner is a natural environment to do that. So I think that that's still done. When I go to visit my clients, we go out to restaurants. Are the restaurants expensive? Yeah, sure. I don't take them to McDonald's. It's also part of the image that I can afford to take you to a great restaurant." One respondent indicated that in some cases, while a gift might not be provided, he might instead 'barter' with another party such as a consultant in order to win a contract with a potential client. In this way employees are able to circumvent company policies.

Theft/Expense Accounts/Use of Company Equipment: Overall, there does not seem to be a serious problem with theft, abuse of expense accounts, or personal use of company property by Israelis. If abuse of company property took place, it typically included the use of company cellular phones for personal use. One example included expenses of approximately US$2,500 for one employee calling his relatives in South America. Some felt personal use of the phone was acceptable, including an executive of a U.S. based Israeli subsidiary who indicated: "Look, I have a brother, that lives in the States, I call him once in a while, I do that, everybody does it and I think it's okay. Unless you spend your day not working." Occasionally actual theft of corporate property would take place: "…in the marketing department I had a storage room where we had all the marketing materials and supplies and gifts, and all the materials that came back from large exhibitions…[like] computers and products and everything that you need for large shows. At one point the door was not locked so a few things were taken…" Although the use of company cars for personal use was widely practiced, it was almost always considered permissible, at least according to the respondents. In the case of a company partially owned by an Israeli kibbutz: "…the people from the kibbutz have the feeling they can use the [company's] facilities, papers or whatever or all the service that you can get from [the company] even if they are not working in [the] company."

Confidentiality and Insider Trading: There was a clear consensus among the respondents that not only is maintaining confidentiality an issue in Israel, it is much more of an issue when compared to the United States or other western countries: "…awareness is not as high as it should be." One respondent commented: "I don't think Israelis are particularly careful. I think this is a big 'yente' [i.e., yiddush for people who talk a lot]

society, and people are proud of the fact they know something, and they don't keep their mouths shut very well, generally." One respondent indicates how it works:

[It's] a cultural problem. I mean if you tell somebody that it's a secret then…[the] information…will travel faster than the Internet…People do not [understand] the importance of confidentiality here. They always tell somebody and somebody tells others…If you tell somebody [excited] enough to run downstairs you'll hear about it an hour later from another person. So I think…the only thing confidential for me is that…my wife probably will be the only one to hear it. Maybe some senior management but the culture here is very problematic on what's confidential.

One respondent suggested that the lack of confidentiality is related to ego: "We are talking too much, we are, you know, everyone wants to show how important he is, how much knowledge he has." Others relate the problem of confidentiality to the close friendships or networks that exist in Israel:

Friendship, you know. Somebody that works here has a friend that's working in another company and he has another friend and the third friend's [like] hey, [this is a major investment firm], so he calls the journalists. That's how it's working…Israel is a friendship country, you know. It's a lot of chains and networks…

Several respondents noted that there is still a "reasonable degree of awareness" regarding the importance of confidentiality. In at least one firm:

[Employees] get bombarded with training and messages to be sensible and not talk in the [elevators] about clients and to preserve client confidentiality and before we send an e-mail to check [if] it's the right address, before we send a fax to make sure it's the right number. We have all this training, and over many years it really does seep

into your conscience and you do know it.

In terms of using confidential information to engage in insider trading, several respondents noted that while insider trading was still taking place "…especially in this small market - when we're talking about the stock market where everyone knows everyone," most recognize the risks: "…people are afraid" and "awareness [of insider trading laws] is high…"

Privacy: In terms of privacy, there seemed to be a clear division between those companies that respected their employees' privacy, and those that did not.   There was however close to a consensus that Israelis were very sensitive to having their privacy invaded by having their email or internet surfing activity monitored, especially without sufficient disclosure: "Obviously no one really wants to feel like they have big brother over their shoulder.   But I think most people know that there is always the chance that someone is monitoring…"   One of the reasons given for the offensiveness of monitoring is that: "This is my area, my business, so I can have pride and the mail and information and I don't want my manager to read it without telling me that they are doing it."   Another suggests: "Definitely it's a cultural issue; people in Israel tend to have more [of a] need for freedom, more need to take their own destiny in[to] their own hands and they would look very badly at people reading their e-mails.   I know I would and I think in the United States it's a different kind of structure."   Some felt that their companies were too extreme:

> [Employees] are not that happy that they can't go to their Facebook every day and check their Gmail account.   This company probably takes it even a bit too far.   There's a lot of sites that I actually do need for work that I'm not allowed to go

into because of the regulations….For example, GAT and Finance or Google Finance have message boards and blogs. Because they're in a certain category that are the same as Facebook, I can't actually go into them.

Accuracy of Financial Records: In terms of the accuracy of corporate financial records, there has been a perceived improvement mainly due to the effect of the *Sarbanes-Oxley Act* in the U.S., and the fact that "Today all the large accounting firms here are tied to American firms….they're all subsidiaries of the big boys [leading to] more awareness…today than there was twenty years ago." Despite this fact, "…sometimes some clients…change numbers that will [make them look better]." Another respondent also notes some problems: "I think that there are certainly shortcuts taken. If it's a lot of work to get the exact answer, I think the attitude in Israel is let's do the shortcut, even though it'd mean a little bit of fudging, which is not a hundred percent ethical. If it saves a lot of time, I think that he will do that fudging…But I think this is generally in areas that are not monitored well enough."

Customers/Clients: The treatment of customers and clients has always been of great concern in Israel. According to respondents, issues clearly continue to persist regarding quality, disclosure of defects, acting in the client's best interests, and keeping deadlines. In terms of admitting mistakes: "I think people who come from the west will [admit mistakes]. I don't think native Israelis will admit a mistake unless they're absolutely nailed to the wall and told they have to do it." The founder of a high tech company stated: "[We're] not going to tell them [about mistakes]. If the customers discover [the mistake] then we will fix it…the customer gets what he deserves when you buy the

cheapest [products]…" The same respondent did indicate however that when it comes to keeping deadlines, at least his Israeli firm was better than U.S. firms:

> Ninety-five percent of the dates we promise we do stand behind them and we do delivery. And the funny thing that I found out in the last few years [is] that American companies give you dates that have no relation to reality. They give you a date just to get rid of you and they will lie all the time. We're working for vendors and they're continuously lying to us. Their business ethics around delivery dates and credibility is very low. When I am facing East European companies, when they give me a date it is the date. Which is funny, right? You think about the Russians and Ukrainians and Bulgarians [as] someone who will not…stand behind the date [but] for the past eight years, the Americans will never stand behind the date. Their credibility is very low.

As one respondent suggested, part of the problem for higher consumer ethics is that Israeli customers in general do not care about issues when compared with elsewhere:

> I think there's less emphasis [on product quality and safety when] compared to the countries outside of Israel [such as] Europe and the U.S., because first of all regulation here is different, [it's] …less complex and there's less public response. In Israel, what you find is th[at] consumers just don't respond; consumers don't take a stand. [The] Israeli public doesn't care. There was an issue about six months back [involving] Osem…with their Tivol products…They'd been left outside…and they defrosted and then they were put back in the cold store and refrozen and then shipped to customers, which is clearly a breach of all product safety standards. And that was discovered and blew up and there was a whole ho ha about it in the papers…and the

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general manager…[admitted] it was the wrong thing to do and clearly it was a breach of procedures. And then a couple of weeks later you asked grocery managers whether there had been any dip in Osem sales as a result of that. Nothing. I mean, no one noticed. There was absolutely no adverse impact.

There may also be an issue with respect to legal enforcement regarding product safety:

So I tend to think that in Israel there is a sense of responsibility. Most people do try to produce products which are safe and respect the consumers in Israel. I think there's a very low degree of law enforcement. There are many laws, but they're just not enforced. There's no sort of control. So people who want to break the rules can do so probably without any major backlash.

Deceptive and Offensive Advertising: In terms of advertising, issues regarding possible deception continue to be concern: "…the advertisement is very aggressive…frankly, the customer does not understand the advertisement." One Chairman told a story of how he was able to prevent a potentially deceptive press release regarding his firm's annual report:

We are publishing today our annual report. So they gave me [the press release] yesterday night to read…And the headline was that profits from general insurance and medical insurance went up…twenty-five percent…And I said come on, what about the bad news?...So you take a chapter from the profit…and you say make it into a headline, and when it goes [on] to talk about the losses on life insurance, you talk [instead] about volume…so I was reading it and I was making remarks. Then the CEO came to me, and he said listen, we have a problem with the PR company. I said what is the problem? And he said…they are not thinking [along] the same lines

that we are thinking. I mean, it's a new PR company and we have to teach them that

we don't cheat; we don't give true but misleading, deceptive information.

In some cases, advertisements might be publicized which are considered offensive, in

particular to the ultra-religious groups in Israel. One particular example was provided as

follows:

And then Sara Jessica Parker [is] all over the country advertising this new promotion

on a particular product, I think it was…[a] shampoo or something like that and she's

wearing an evening dress. And it wasn't particularly…modest, but anyway in any

other country it would have been perfectly okay. Why, because [there was no]

cleavage or anything but just a low neck and her shoulders were exposed…Next

thing we know, all of the Orthodox community complained, the Haredim, [it's] not

modest enough for them. Overnight, at the expense of, I think it was around 300,000

shekels, [the company] dressed Sara Jessica Parker…I don't know whether they just

added sleeves or reprinted all the posters after some Photoshop touchups but the next

day she was in an evening dress which was, you know, with full sleeves and closer to

the neck. So, you know, sometimes you just don't realize that there's a particular

element of the community you might be offending.

Competitive Intelligence: Overall, respondents suggested that aggressive or unethical

competitive intelligence continues to be an issue in Israel. One respondent discussed the

problem as follows:

Until a year ago, for example, business espionage was a legitimate occupation.

Okay…I could give you an example. When [the] CEO was the head of the Shin Bet

[i.e., Israel's internal police], the first thing he did was to develop his intelligence

department. He took some guys and created a whole intelligence department that their main project was to get intelligence out of other companies. So it was disconnected from the company but, in fact, it was part of the company. So a lot of the major companies in Israel had business espionage. They tell you -- they are covering it up with beautiful words, okay. But in the end they have business intelligence…So what is business intelligence, it's eavesdropping. They steal information. They steal employees. They install stuff inside the computers of their competitors. And they violate any business ethics that exist…

The issue of using technology to steal competitive information was also discussed by an executive of an Israeli food company:

Regarding competition…You have information, these days people come into your offices or they don't have to even…come physically into your offices. They go into your computers…We found bugs on our fax machines that people tried to get copies of whatever we had…We went to the police, but nobody knows who did it.

There also seems to be a high degree of acceptability in hiring employees of competing firms and taking advantage of their information, or at least with "…the agreement of the competition." Others suggested the opposite view:

We would never take somebody to bring in clients with him. Some people sometimes come for [an interview] and say I'm bring[ing] clients. We'll say no, we don't need them. We wanted you as you're a professional [and] we don't want to touch the clients, it's not ethical…we had the opposite though. Some people left us, which happens everywhere and then a lot of people left and started their own businesses and went to nice places and sometimes the clients left us, which is also

okay.

Another respondent indicated that there does seem to be differences in Israel in terms of taking clients when leaving a firm:

[In] the States…a business manager or a credit manager…takes his customers with him. You don't find it in this country. Most of the big [clients] are working with most of the banks…although…personal relations are very important, it's not the only part…because it's a small country. I know all the customers, all the business customers…But still…it happened once or twice that people left and took lists, telephone numbers, other details from the bank, that's very bad to the employee himself and to the organization who is ready to let him act under this.

A more positive example was provided about one firm receiving by mistake bid information from a rival firm and how it was handled:

We had a tender…a week ago and there was a deadline [of] 9 o'clock in the morning. And at 8:55 -- 8:50, by mistake, my competitor sent his proposal to me….he replied to everyone and I was part of the e-mails. And I had two choices, it was encrypted with a small password on Excel, it takes about twenty seconds to break it. We are in the business, right? So we had two options. One is [to] break his code, look at the numbers, fix our numbers and then send the file. What we [did], we replied to everyone saying sorry…this is the file you sent to us. It's encrypted, we're not going to touch it and here's our proposal, also encrypted. So here have mine…in the end I've talked to him about it and he…was a little bit relaxed that we are the only who got it. Because he realized that he's dealing with a company that will take the file and throw it in the garbage…the other company…will probably open it.

Whistleblowing: When it comes to views regarding whistleblowing, the practice is clearly not highly regarded among Israeli executives, despite the fact that many codes of ethics may in fact require employees to blow the whistle on misconduct. One respondent suggests that: "Slanderers are not nicely regarded in the Israeli society, wherever. So people don't like to be slanderers, informers." As a result, it may be that very few employees actually report wrongdoing. One former executive of an Israeli multi-national indicated:

> You don't get many employees that blow the whistle…it's not customary practice. …it's not been demonstrated in the office as something that's positive…There's a lot less emphasis placed on 'please make sure you tell us if there's anything that you see that's wrong'…[we] just do[n't] emphasize that we all have an equal responsibility not only to behave ethically but also to alert the business or alert individuals if there is unethical behavior…how many times can you keep reporting issues to management? It's just not the way that they see it…I think whistle blowing just hasn't jelled…I don't know how many people contacted the [company] hotline with ethical issues.

A few respondents suggested that it may not be worthwhile to report everything. One partner of a large accounting firm indicated that he would not necessarily report all misconduct:

> For example, let's say that the CEO…sneaks [the company contractor] into his personal house to do something, you know, it's an ethical issue. Why [is it an] ethical issue? Because he's [using] the firm resources…for his personal needs…It's something that…I don't feel it's okay, and I wouldn't do it in my house, but it's

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something that I skip [reporting]…But if it would be something, you know, that I will know that they are paying big money for someone that is not worth it or not according to something, I will raise it, no problem.

Whistleblowing is however certainly much more emphasized than previously, at least at the U.S. based Israeli bank:

It's emphasized very much. If you walk around, if you go to make a cup of coffee you'll see in the kitchen there's a whole poster…specifically [advertising] this issue [that] there's an anonymous hotline that you can call if you feel anything unethical going on. The organization is extremely careful to stress…that they place a lot of importance on the individual's ability to [report] behavior that's unethical…

Over time however, whistleblowing may have become considered more acceptable in Israel. One respondent stated: "Today they do not look at it like something strange that you raise this issue." Another respondent stated: "More and more people are more open to speak…loudly about [problems] and to ask us to correct ourselves." One firm even offered prizes to employees who report wrongdoing: "Because we don't want to find ourselves in a way or in a situation that we are acting wrongly and we don't know about it and people, our colleagues, customers or anyone will suffer."

Health, Safety, and the Environment: In terms of worker health and safety in Israel, there appears to be great room for improvement: "There's no enforcement. There are rules in the books here, but you go into plants and you see machinery that's uncovered, you see people working without protective clothing. So I think there is a very serious issue of worker health and safety here. Not so much in an office environment, but in a

manufacturing environment. I think we're a long way from addressing that. A long way." In addition, environmental issues do not appear to have penetrated into the corporate mindset. Even companies with ISO 14000 certification are seen as being some of the worst polluters. One respondent suggests that this is due to the lack of a public outcry: "Chemical companies…probably practice or are probably guilty of polluting the environment which, until there's a public outcry, for economic reasons they tend to ignore that kind of issue. They wouldn't really feel any social obligation to try and mitigate the damage that they do." Despite the continued problems, there may however have been a slight improvement at least with respect to environmental awareness: "You can't go anywhere these days without hearing about environmental issues…and yes, over the last year or so there has been a significant increase. Still very far from real environmental responsibility but yes, more and more businesses are taking that into account…" Table one below summarizes the status of the various ethical issues in Israel as discussed above.

Ethical Issue	Awareness? Improvement? Remains Concern?
Nepotism/Favoritism	Situation has improved, but remains a problem for government companies
Discrimination	Continues against Israeli Arabs, Ethiopians; pregnant women; ultra-Orthodox; physically disabled
Sexual Harassment	Awareness now very high due to change in law and scandals, some executives now overly paranoid
Gifts/Kickbacks	Policies clear and understood, gifts still accepted at holidays, providing meals and taking clients to events considered acceptable
Theft/Use of Company Equipment	Long distance personal calls remains a problem, use of company car for personal use considered acceptable
Confidentiality	Major issue, Israelis tend to like to talk based on their ego
Privacy	Very sensitive issue for Israelis, why does the company need to watch me?
Accuracy of Financial Records	Improvement from before, but fudging still takes place

Customers	Remains an issue: quality; disclosure of defects/mistakes; acting in client's best interests; keeping deadlines; breaking promises
Advertising	Deception continues; sometimes too offensive to religious community
Competitive Intelligence	Remains a problem, acceptable if new employees/managers bring over information with them (as long as employee not solicited)
Whistleblowing	Not highly regarded, rarely takes place, perceived as quite risky
Health/Safety/ Environment	Remains a problem in manufacturing sector; higher awareness for environmental matters but not a priority and little enforcement

Table 1: Summary of Status of Ethical Issues

Reasons for Unethical Behaviour: When respondents were asked why Israeli employees act unethically, a range of responses resulted. The reasons include: *greed* (e.g., "They can be greedy. He wants to make easy money"); *ego* ("Because they want to achieve something; they want to get power, they want to get success and in some cases if they cannot do it in the ethical way, they might use the bad or non ethical way to achieve their goals…"); *peer pressure* ("…when everyone around you is accepting this kind of behavior then…you buy into it"); *supervisory pressures* ("I don't think managers would press them to be unethical, they would press them to close a deal that will cause them to be unethical"); *fear of mistake* ("If you believe or feel that the company's approach toward mistakes…is very tough and very strict, you might cover your mistakes…"); *dissatisfaction* with one's job or firm ("We had an incident…where an employee in accounting, was dissatisfied with her job. She thought that we are going to fire her. She started manipulating our…business results"); acting in the *best interest of company* ("Most people are not negative. They're mostly positive people…So they convince themselves that it's good for the firm, good for the client"); *bad role modeling* ("When you show that everything is open and everything is allowed, th[at] the only thing that we have to care for is results [or] money, you'll find that the field will be full of dead

bodies"); and *inappropriate education* ("You can't take a person who is now sixty and tell him to switch because you're in a different world. Because that's the way he was brought up. That's the way he learned to survive"). These findings appear to correspond to those found by others with respect to factors that might influence ethical decision making (O'Fallon and Butterfield, 2005; Schwartz, 2001).

Israel versus Non-Israel Business Ethics: When asked to compare the state of Israeli business ethics with non-Israeli business ethics, most respondents suggested that Israel was behind, at least when compared to the United States: "I think that the Israeli people are less ethical or less honest than other companies…it sounds bad but I think sometimes ethics or a way of behavior relates to a culture. So I think in Israel the people are very 'chutzpanim' [i.e., aggressive] or might use white lies to achieve [business success]." Several reasons or factors were suggested to explain why there is a distinct Israeli business ethics relative to other nations. While it is difficult to know if the factors are really at the core of the culture of Israel, the 'on the surface' reasons include: melting pot; innovation; disrespect for rules; 'friar' mentality (i.e., avoid being a sucker); army experience; small country; short term focus; highly competitive; middle-east context; lack of formality; educational system; compensation system; and loyalty. Table two below summarizes the various factors that might lead to a particular Israeli business ethics that is different from other countries.

Factor	Summary
Melting Pot	Morality affected by many different ethnicities and nationalities that have moved to Israel over recent years. *Example*: "Israel is like a melting pot. So it's true that the Russian in Israel, he's still a Russian…But I think some of what he brings with him from wherever he comes is with him…It's not that he continues living where he was. So he looks around, what are the ethics in the country that he comes to…It's easier to convert him to [a] different ethics or a different way of life..."
Innovation/ Rules	Desire to innovate creates a need for freedom and a lack of respect for rules that slow things down. *Example*: "Israelis are, I mean, culturally they're not obedient, culturally there's something which is about breaking rules and not respecting the rules…Israelis are very creative, [they]…need to improvise, Israelis don't plan very well so they need to improvise to ensure that things happen. And in general that applies to issues which could have an ethical implication.
'Friar' Mentality	Nobody wants to be a 'friar' (i.e., sucker) in Israel, i.e., taken advantage of by others.
Army Experience	Leads to aggressive business practices, speaking directly and to the point with others and a hesitation to blow the whistle due to group loyalty.
Small Country	Everyone knows each other, unethical reputations more difficult to hide. *Example*: "…it's a small market, everybody knows everybody. And if I am lying to you everybody will know that I'm a liar in the end. So when I will go and find a new job three years later it will be a problem. When it comes to American companies he doesn't know me.
Short Term Focus	The constant military threat affects business mentality, make money now, who knows what tomorrow will bring. *Example*: "[The] short-term mentality…is the mentality in Israel…because people…managers, most of the company, they are not [in it] for the long run. People expect them to bring result[s] now and quickly, and if you want to bring your result quickly, you have to think short [term]."
Highly Compe- titive	Can be 'cut-throat' at times. *Example*: "I think this is a much more competitive environment than America. Much more so, much more cutthroat. Again, you know, the business ethics are not as refined, so nobody really seems to care whether they do something that's a little bit less ethical."
Middle- East Context	Other issues in country more pressing, high level of pressure, affects negotiations. *Example*: "…if you drew a line…through northern Spain and Rome and Athens, around this part of the world and across north Africa, there's a Mediterranean mentality…that the end of the negotiation is the beginning of the negotiation, and ah, you meant shekels, I thought you meant dollars, we'll start all over again."

Lack of Formalty	Being an informal country affects degree of physical contact, dress codes, punctuality. *Example*: "The country is not formal. A lot of things that are okay to do here would never be okay in other places. How we talk to each other, what we do. I was pregnant in Israel two times and when you are pregnant in Israel it's absolutely okay for a stranger in the elevator to touch your [belly]. Would you ever even think of doing such a thing in other countries? I don't think so…Look, it's a rough country."
Education/ Cheating	High degree of cheating in school may affect business practices later on. Example: "If cheat[ing] is legitimate it can affect the way you behave as a grown up, as a parent, as a manager."
Compensa-tion System	Less chance of major scandal in Israel versus U.S. due to compensation system, few can become a millionaire through cheating in Israel.
Loyalty	Higher degree of loyalty to one's firm in Israel than in the U.S. *Example*: "People in the States will get to be very [dis]loyal to their organization. I wouldn't say [dis]loyal, but their definite loyalty to their organization is very low. I think the level of loyalty to an organization in Israel is very high."

Table 2: Factors Affecting a Particular Israeli Business Ethics

Current Steps and Recommendations to Encourage Ethical Behavior: Respondents were also asked to indicate the sorts of things their firms were doing to encourage ethical behavior, and to provide their recommendations for improving the situation. Similar to the findings discussed above (i.e., based on of the survey conducted on the extent of formal ethics program in Israel), overall, it appeared that about half of the respondents worked at firms with a code of ethics. One managing director of one of Israel's largest firms however was actually not certain if his firm had a code of ethics: "We may have something in writing…I don't even know. And if we do, it's not being used as such. But ethics are a major issue for us." Most firms lacked any additional formal ethics program elements. For those respondents that did work at firms with additional ethics program elements, such elements included: an annual sign off on code; intranet ethics training; compliance officer; posters regarding hotline; speeches; declaration of lack of criminal

activity; exit interviews addressing ethical risks; performance appraisal incorporating ethics; anonymous ethics hotlines; positive role modeling; enforcement of code violations; and rewards for reporting violations. One additional element which appeared to be quite popular was that of ethics or integrity testing conducted during the hiring process.

When asked to recommend measures that might improve the state of business ethics in Israel, the respondents tended to focus on a few major areas: (1) greater education/awareness; (2) clear statement on ethics by the firm; (3) additional ethics training; (4) firms and their managers 'walking the talk'; (5) greater enforcement for ethical misconduct; and (6) modification of compensation systems that might be encouraging misconduct.

Past and Future of Business Ethics in Israel: The vast majority of respondents believed that the state of business ethics had indeed improved over the past 5 or 10 years at their firms and/or in Israel in general, and will only continue to due so into the future. The sorts of reasons for the current and future improvement include: greater general awareness; enhanced cross-border global exposure; new pressures from foreign clients; effect of U.S. scandals and regulation; additional Israeli regulation; impact of Israeli television and media; and improvements to corporate ethics programs.

Discussion

The study found that overall, the state of business ethics in Israel might be better than expected, but with significant room for improvement. For example, the opportunity to study business ethics at most business programs now exists. It's not clear however

whether such courses are effective in any way. Business ethics organizations are also becoming more active in their educational efforts. In terms of formal ethics program elements, a majority of large Israeli companies now have codes of ethics, with an increasing number also using other methods as well (e.g., integrity testing, training, hotlines, etc.). It remains unclear though whether other aspects of an ethical corporate culture (e.g., ethical leadership, ethics alignment with hiring, promotion, compensation, etc.) may play a much bigger role in encouraging ethical behavior for Israeli employees.

In terms of perceptions by Israeli executives, the study found that despite most respondents believing they worked in ethical firms, there are a number of ethical issues that remain problematic including: nepotism/favoritism; discrimination; confidentiality; treatment of customers; advertising; competitive intelligence; whistleblowing; worker health and safety; and the protection of the environment. Non-Israeli firms that are doing business with Israeli firms should be aware of these potentially problematic ethical issues. Non-Israeli firms that are acquiring or merging with Israeli firms might need to adjust their codes of ethics and ethics training accordingly in order to take into account cultural differences.

When it came to Israeli business ethics versus non-Israeli business ethics, most respondents believed that Israel did not do as well at least compared with the United States. Others suggested that while the U.S. appeared on paper to be more ethical, with its rules, policies, and procedures, it did not necessarily mean that this was the case. Of the various reasons given for the differences, the Israeli desire to innovate, avoid being a 'friar' (i.e., sucker), and the Middle-east context (e.g., high pressure, informal) seemed to dominate. The fact that Israel is such a melting pot also seems to make it more difficult

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to establish a consistent norm of behavior. Further empirical research should be conducted to identify and confirm the reasons for potential differences between Israel and other countries when it comes to business ethics.

Recommendations for improvement focused on the need for greater educational efforts, in both the educational system and the firms themselves, with clear ethical statements or codes of ethics being required. Such efforts will be ineffective however without the additional training, walking the talk, and publicized enforcement when misconduct takes place. Firms should also be careful when compensation systems (e.g., through salaries that are primarily dependent on commissions or bonuses) are used that might encourage unethical decision-making by salespeople.

Israeli executives believe that the state of business ethics in Israel has clearly improved over the last decade, and will only continue to improve as more and more Israelis are exposed through work or travel to expectations of behavior outside of Israel. Pressure from non-Israeli clients and investors will also continue to improve matters as well as greater awareness of the importance of business ethics through the media and television. Continued efforts by the various Israeli business ethics organizations combined with teaching of the subject in business schools should also facilitate greater awareness. Despite the factors influencing higher behavioral expectations in Israel, a challenge clearly remains for the improvement of Israeli business ethics.

Limitations and conclusion

Despite the potential contribution of the study, its research methodology is limited in several respects. In terms of the state of business ethics education, a more comprehensive

analysis would have examined the actual course materials used in teaching business ethics courses, and would have attempted to assess the impact the courses might be having on students. In terms of the survey data on Israeli corporate ethics program initiatives, there might be a social desirability bias in terms of those companies that choose to self-report their data as well as how the data is reported. This fact may have resulted in the relatively high percentage of companies reporting to have a code of ethics or other ethics program elements. Over time, the survey might ask additional questions and reach a broader Israeli corporate audience including mid-size firms. In terms of the interview research, it should only be considered preliminary and explorative. The sample size was very limited, with only 22 interviews taking place. There was a significant focus on the financial sector (13 of 22 respondents worked for banks, insurance companies, or investment firms); other industries (e.g., real estate, pharmaceutical) should be included in any future research. In addition, not only senior executives should be interviewed, but lower level managers and employees as well. The data was based on self-reported perceptions, as opposed to being based on any direct observation of behavior. In this respect it certainly remains subject to social desirability bias. Finally, the fact the interviews were held in English might have affected the quality or true meaning of the responses for several of the respondents for whom Hebrew was their mother language. For example, there may have been particular Hebrew expressions that were not properly captured during the interviews.

Despite its limitations, the study may represent the first attempt to provide an initial overview of the state of business ethics in Israel based on multiple perspectives and sources of data (i.e., survey and interviews). In general, and particularly as a young

country, Israel might be considered to have made great improvements in the state of business ethics over the years. All of that being said, there appears to be significant room for improvement. Clearly at this point in time it would be difficult to claim that Israel is a "light unto the nations" when it comes to business ethics. Whether Israel will continue to improve sufficiently to actually become a role model for other nations is yet to be seen. But considering that Israel has overcome what might be viewed as insurmountable odds to not only survive but to flourish economically, anything is possible. Israelis concerned about the state of business ethics in their country and whether it will ever change might try to remember a quote from the father of modern Zionism, Theodore Herzl: "All we need to do is to wipe the sleep from our eyes, stretch our strong bodies, and we can change the dream into reality."

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