SUSTAINABLE ENTREPRENEURSHIP
REGIONAL AND COUNTRY STUDIES

Latin Europe

SUSTAINABLE ENTREPRENEURSHIP PROJECT

Dr. Alan S. Gutterman

Sustainable Entrepreneurship: Regional and Country Studies (Latin Europe)

About the Project

The Sustainable Entrepreneurship Project (www.seproject.org) engages in and promotes research, education and training activities relating to entrepreneurial ventures launched with the aspiration to create sustainable enterprises that achieve significant growth in scale and value creation through the development of innovative products or services which form the basis for a successful international business. In furtherance of its mission the Project is involved in the preparation and distribution of Libraries of Resources for Sustainable Entrepreneurs covering Entrepreneurship, Leadership, Management, Organizational Design, Organizational Culture, Strategic Planning, Governance, Corporate Social Responsibility, Compliance and Risk Management, Finance, Human Resources, Product Development and Commercialization, Technology Management, Globalization, and Managing Growth and Change.

About the Author

Dr. Alan S. Gutterman is the Founding Director of the Sustainable Entrepreneurship Project and the Founding Director of the Business Counselor Institute (www.businesscounselorinstitute.org), which distributes Dr. Gutterman's widely-recognized portfolio of timely and practical legal and business information for attorneys, other professionals and executives in the form of books, online content, webinars, videos, podcasts, newsletters and training programs. Dr. Gutterman has over three decades of experience as a partner and senior counsel with internationally recognized law firms counseling small and large business enterprises in the areas of general corporate and securities matters, venture capital, mergers and acquisitions, international law and transactions, strategic business alliances, technology transfers and intellectual property, and has also held senior management positions with several technology-based businesses including service as the chief legal officer of a leading international distributor of IT products headquartered in Silicon Valley and as the chief operating officer of an emerging broadband media company. He received his A.B., M.B.A., and J.D. from the University of California at Berkeley, a D.B.A. from Golden Gate University, and a Ph. D. from the University of Cambridge. For more information about Dr. Gutterman, his publications, the Sustainable Entrepreneurship Project or the Business Counselor Institute, please contact him directly at alangutterman@gmail.com

Sustainable Entrepreneurship: Regional and Country Studies

Contents

This is a Part from the Regional and Country Studies collection and you can get copies of other Parts and/or chapters by contacting the Sustainable Entrepreneurship Project (www.seproject.org) at alangutterman@gmail.com. The Project also prepares and distributes Libraries of Resources for Sustainable Entrepreneurs covering Entrepreneurship, Leadership, Management, Organizational Design, Organizational Culture, Strategic Planning, Governance, Corporate Social Responsibility, Compliance and Risk Management, Finance, Human Resources, Product Development and Commercialization, Technology Management, Globalization and Managing Growth and Change.

Maintenance of Publication and Availability of Additional Information

The materials in this publication are not maintained and thus may not include the most current information, particularly with regard to economic and demographic data. More recent information may be included in the Libraries of Resources for Sustainable Entrepreneurs referred to above and available from the Sustainable Entrepreneurship Project (www.seproject.org). Additional information on the region and countries covered by this publication is available on the Regional and Country Studies pages of the website of the Sustainable Entrepreneurship Project (www.seproject.org).

PART III
LATIN EUROPE

Preface

In 1985 Ronen and Shenkar reviewed the then-published literature on country clustering[1], including works by Haire, Ghiselli and Porter[2]; Sirota and Greenwood[3]; Ronen and Kraut[4]; Hofstede (1976)[5]; Griffeth, Hom, Denisi and Kirchner[6]; Hofstede[7]; Redding[8] and Badawy[9]. Ronen and Shenkar integrated and synthesized the available data to propose their own map of country clusters based on patterns of employee work attitudes derived after reviewing responses of thousands of employees in dozens of countries around the world to questions about their general attitudes towards work (e.g., the importance of various work goals, their satisfaction of needs through work, organizational factors and managerial issues and the nature of roles and interpersonal relationships in the workplace including how well managers related to subordinates).

Using a statistical procedure known as "smallest space analysis", Ronen and Shenkar identified and diagrammed eight country clusters: Arab, Near Eastern, Nordic, Germanic,

[1] S. Ronen and O. Shenkar, "Clustering countries on attitudinal dimensions: A review and synthesis", Academy of Management Review, 10 (1985), 435-454. For further discussion of the various research studies reviewed by Ronen and Shenkar, see "Globalization: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).
[2] M. Haire, E. Ghiselli and L. Porter, Managerial thinking: An international study (New York: Wiley, 1966).
[3] D. Sirota and J. Greenwood, "Understand your overseas work force", Harvard Business Review, 49(1)(1971), 53-60.
[4] A. Kraut and S. Ronen, "Similarities among countries based on employee work values and attitudes", Columbia Journal of World Business, 12(2) (1977), 89-96.
[5] G. Hofstede, "Nationality and espoused values of managers", Journal of Applied Psychology, 61 (1976), 148-155.
[6] R. Griffeth, P. Hom, A. Denisi and W. Kirchner, A multivariate, multinational comparison of managerial attitudes. Paper presented at the annual meeting of the Academy of Management, Detroit (August 1980).
[7] G. Hofstede, Culture's consequences: International differences in work related values (Beverly Hills: Sage, 1980). Hofstede's IBM survey is referenced frequently in this Guide and Ronen and Shenkar noted that several survey instruments used by Hofstede included various items relating to work goals (i.e., Hofstede's famous initial four dimensions of power distance, uncertainty avoidance, individualism and masculinity), need deficiency, fulfillment and job satisfaction. Hofstede also sought the opinions of respondents regarding their choice among four types of managers as to actual and preferred types of characteristics for their manager. Information regarding the variables used in the study and survey procedures that were followed is derived from S. Ronen and O. Shenkar, "Clustering Countries on Attitudinal Dimensions: A Review and Synthesis", The Academy of Management Review, 10(3) (July 1985), 435-454 (Table 1 – "Variables Used in the Studies Reviewed").
[8] G. Redding, "Some perceptions of psychological needs among managers in South-East Asia", in Y. Poortinga (Ed.), Basic problems in cross-cultural psychology (Amsterdam: Swets and Zeitlinger B.V.: 1976), 338-343.
[9] M. Badawy, Managerial attitudes and need orientations of Mid-Eastern executives: An empirical cross-cultural analysis. Paper presented at the annual meeting of the Academy of Management, Atlanta (August 1979).

Far Eastern, Latin American, Latin European and Anglo.[10] They also categorized four countries that they felt could not be easily fit into one of the clusters as "independents": Brazil, India, Israel and Japan. In general, countries tended to cluster together based on similarities in level of development and technological progress, geographic proximity, language and religious values and beliefs. Those countries that were classified as independents each had a unique language, religion, and history. The composition of the membership of each cluster is represented in the following table[11]:

Arab	**Near Eastern**	**Nordic**	**Germanic**	**Far Eastern**	**Latin American**	**Latin European**	**Anglo**
Abu-Dhabi	Greece	Denmark	Austria	Hong Kong	Argentina	Belgium	Australia
Bahrain	Iran	Finland	Germany	Indonesia	Chile	France	Canada
Kuwait	Turkey	Norway	Switzerland	Malaysia	Columbia	Italy	Ireland
Oman	Yugoslavia	Sweden		Philippines	Mexico	Portugal	New Zealand
Saudi Arabia				Singapore	Peru	Spain	South Africa
United Arab Emirates				Taiwan	Venezuela		United Kingdom
				Thailand			United States
				Vietnam			

Independents			
Brazil	India	Israel	Japan

Ronen and Shenkar found that there country clusters generally corresponded to how countries might be grouped based on their measurements on the four original dimensions in Hofstede's cultural dimension model[12]:

	Power Distance	**Individualism**	**Uncertainty Avoidance**	**Masculinity**
Nordic	Low	Medium-High	Low-Medium	Low
Germanic	Low	Medium-High	Medium	High
Anglo	Low-Medium	High	Low-Medium	High
Latin European	High	High	High	Varies
Latin American	High	Low	High	Varies
Far East	High	Low	Low-Medium	Medium
Near East	High	Low	High	Medium

[10] S. Ronen and O. Shenkar, "Clustering countries on attitudinal dimensions: A review and synthesis", Academy of Management Review, 10 (1985), 435-454. Ronen and Shenkar actually presented the clusters in a "pie chart" format that grouped countries together in terms of their similarity on work-related variables and the table in the text follows this grouping of countries. For example, Latin American and Latin European countries were closely related as were Nordic and Germanic countries.
[11] Id. For discussion of "smallest space analysis," see L. Guttman, "A general non-metric technique for finding the smallest coordinate space for a configuration of points", Psychometrika, 33 (1968), 461-469.
[12] Derived from S. Ronen, Comparative and multinational management (New York: John Wiley & Sons, 1986), 262-265; and S. Ronen and O. Shenkar, "Clustering countries on attitudinal dimensions: A review and synthesis", Academy of Management Review, 10 (1985), 435-454.

Seven of the cluster studies analyzed by reviewed by Ronen and Shenkar identified a Latin European cluster (i.e., Haire, Ghiselli and Porter; Sirota and Greenwood; Ronen and Kraut (1977); Hofstede (1976); Ronen and Kraut; Griffeth et al.; and Hofstede (1980)) and the composition of the cluster appeared to be dependent upon the scope of the countries that were included in the particular study: Belgium and France were consistently included and other countries falling into the group when they were surveyed included Italy, Portugal and Spain. Obviously there are differences in language within this group; however, all of the languages share a Romance root and other common dimensions among the group include geography and religion. While they chose not to do so, Ronen and Shenkar did note that they uncovered some evidence that might support a further division of the countries in this cluster into two subgroups: Belgium and France in one and Italy and Spain in the other.[13]

1	2	3	4	5	6	7	8	9
Belgium	Belgium	Belgium			Belgium		Belgium	Belgium
France	France	France	France		France			France
Italy			Italy				Italy	Italy
Spain							Spain	Spain
			Brazil					Brazil
			Switzerland					
							Greece	
							Netherlands	
							Portugal	
								Argentina

Cluster Studies: (1) Haire, Ghiselli and Porter; (2) Sirota and Greenwood; (3) Ronen and Kraut (1977) (SSA of Sirota and Greenwood); (4) Hofstede (1976); (5) Redding; (6) Ronen and Kraut; (7) Badawy; (8) Griffeth, Hom, Denisi and Kirchner; and (9) Hofstede (1980).

For a variety of reasons, Ronen and Shenkar decided that several countries included in the studies that they analyzed—Brazil, India, Israel and Japan—did not belong in any of the other clusters they created for purposes of their synthesis even though the other researchers had suggested possible placements following their own analysis of their results.[14] Israel, for example, was classified as an Anglo country by Ronen and Kraut due, in part, to its history of being controlled by the British and the large number of Israeli professionals that had been trained in Britain and the US; however, Hofstede elected to place Israel in his Germanic cluster on the basis of the large influence of Western European Jews who had immigrated to Israel before and after World War II. Other researchers—Sirota and Greenwood and the reanalysis of their data by Ronen and Kraut—opted for classifying Israel as an independent country in their clustering models. Ronen and Shenkar pointed out that the need for an independent category was an indicator that the foundational dimensional elements for clustering—language, geography and religion—might be overridden in some instances by other factors such as technology and/or economic development. They also cautioned that while the "independents" were distinguishable from the other clusters their grouping did not necessarily mean that they were similar to one another.

[13] Id.
[14] Id.

Researchers working on the Global Leadership and Organizational Behavior Effectiveness project, commonly referred to as "GLOBE" project[15], concluded that the respondents to their surveys could be classified into 62 "societal cultures". In order to facilitate meaningful interpretation of the results the researchers determined that the societal cultures they were investigating could be meaningfully placed into one of ten "societal clusters," sometimes simply referred to as clusters. The clusters were designed, defined and created before the research was conducted, not as a result of the findings reached once the data was collected and analyzed, and were based on a variety of factors including the results of previous empirical studies; other factors such as common language, geography and religion; and historical accounts.[16] Societal cultures in the Latin Europe cluster include France, Israel, Italy, Portugal, Spain and French-speaking Switzerland. Societies in the Latin Europe cluster did not have especially high scores on any of the cultural dimensions but were low on humane orientation and institutional collectivism meaning that people in these societies valued individual autonomy more than the societal collective and were more likely to select and pursue individual goals and protect their own interests as opposed to concentrating on societal goals.[17]

The degree of similarity or dissimilarity between the Latin Europe cluster and the other nine societal clusters with respect to the cultural dimensions measured during the GLOBE study was as follows[18]:

Correlation	Societal Clusters
Strong Similarity	Sub-Saharan Africa; Germanic Europe
Mild Similarity	Eastern Europe; Anglo
Neutral	Middle Eastern (Arab); Nordic Europe
Mild Dissimilarity	Confucian Asia; Latin America
Strong Dissimilarity	Southern Asia

Based on the information in the table above a manager from a society in the Latin Europe cluster would expect to find familiar cultural values, although not precisely the same as in his or her own society, in the Sub-Saharan Africa and Germanic Europe clusters but would need to be especially careful and mindful of significant cultural differences in the Southern Asia cluster.

[15] For detailed discussion of the GLOBE project, see "Globalization: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).
[16] For extensive discussion of the design of the societal cultures and the reasons for placement of societies within those clusters see Chapter 10 of R. House, P. Hanges, M. Javidan, P. Dorfman and V. Gupta (Eds), Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies (Thousand Oaks CA: Sage, 2004), 536. See also V. Gupta, P. Hanges and P. Dorfman, "Culture clusters: Methodology and findings," Journal of World Business, 37(1) (2002), 11-15.
[17] P. Northouse, Leadership: Theory and Practice (4th Ed) (Thousand Oaks, CA: Sage, 2006), 312.
[18] Chapter 10 of R. House, P. Hanges, M. Javidan, P. Dorfman and V. Gupta (Eds), Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies (Thousand Oaks CA: Sage, 2004).

The following chart depicts the relative importance and intensity of endorsement of the six culturally endorsed leadership dimensions to the societies included in the Latin Europe cluster:

Level of Importance/Endorsement	**Leadership Dimension**
High	Charismatic/Value-Based Leadership
Moderate	Team Oriented Leadership
Moderate	Participative Leadership
Moderate	Self Protective Leadership
Low	Humane Oriented Leadership
Low	Autonomous Leadership

Leaders in societies in the Latin Europe cluster are most likely to be perceived as effective when they strive to inspire and motivate and expect high performance outcomes from others on the basis of firmly held core values; however, leaders are not expected to be patient, supportive or considerate or demonstrate compassion, generosity and concern for the well-being of others. Societies in the Latin Europe cluster disapprove of leaders who are independent, individualistic and self-centric and the countries in the Latin Europe cluster were among the strongest critics of autonomous leadership as a contributor to effective leadership.[19] The leadership profile of the Latin Europe cluster is strongly similar to the profile for the Latin America cluster and strongly different than the profile for the Middle East cluster. Leaders from the US and other societies in the Anglo cluster can expect some difficulties in deploying their preferred leadership styles in the Latin Europe cluster due to differences regarding the value and effectiveness of the self protective and humane oriented leadership styles.

[19] P. Dorfman, P. Hanges and F. Brodbeck, "Leadership prototypes and cultural variation: The identification of culturally endorsed implicit theories of leadership," in R. House, P. Hanges, M. Javidan, P. Dorfman and V. Gupta (Eds), Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies (Thousand Oaks CA: Sage, 2004).

Chapter 1
Israel

References and Resources

Additional information on studies and commentaries relating to various aspects of leadership and management styles and practices in Israel can be found in the Sustainable Entrepreneur's Libraries of Resources prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org) covering Leadership, Management, Organizational Design, Organizational Culture, Strategic Planning, Governance, Corporate Social Responsibility, Finance, Human Resources, Product Development, Technology Management, Globalization and Managing Growth and Change.

§1:1 Introduction

Israel has a population of approximately 7.59 million as of 2010 and a land mass roughly the size of the US state of New Jersey.[20] Jews make up about three-quarters of the population while Arabs account for 20% of the inhabitants. While Judaism is the largest religious group in Israel, Islam and Christianity are also significant influences within the country. Almost one-third of the population was born outside of Israel and the country has experienced significant waves of immigration from areas within the former Soviet Union (estimated to be as many as one million new residents since 1989). In fact, Israel was actually placed in the Latin European societal cluster by the GLOBE researchers along with France, Italy, Portugal, Spain and French-speaking Switzerland, a decision that was based on the belief that Jews who had migrated to Eastern Europe from Southern Europe centuries ago to escape religious prosecution were largely responsible for founding Israel and had "retained their social and business ties with the Latin European region".[21] All in all Israelis include former residents of over 100 countries which explains the cultural diversity of the country and appetite for newspapers and magazines published in wide array of languages including Hebrew, Arabic, English, French, Polish, Yiddish, Russian, Hungarian, and German. Israelis are highly educated—education is compulsory from age 6 to 16 and is free up to age 18—with a literacy rate of about 97%, and enjoy a life expectancy of just over 80 years. Music and art also play a big role in Israeli society and there is extensive interest in, and support for, symphonies and orchestras, ballet and dance companies, repertory companies, museums and art galleries.

Israel has a diversified, technologically advanced economy with substantial but decreasing government ownership and a strong high technology sector. Israel has forged a global reputation for innovation and has achieved notable success on a number of high technology projects in areas such as aviation, communications, computer-aided design

[20] The summary of the Israeli people and general economic conditions and performance in this section is adapted from US Department of State, Background Note: Israel (December 2010). The Background Note should also be consulted for a concise, yet comprehensive, review of Israel's history, governmental system and political conditions, geopolitical position and relationships, economic conditions and performance and cultural factors.

[21] R. House, P. Hanges, M. Javidan, P. Dorfman and V. Gupta (Eds), Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies (2004), 184.

and manufactures, medical electronics and fiber optics. Metal products, processed foods and chemicals also play an important role in the Israeli economy and the Israel has proven to be a world leader in software development. It is expected that technology will continue to be a driving force in Israel economic growth in years to come. Israeli exports to major partners such as the US, Germany, Hong Kong and the UK include polished diamonds, electronic communication, medical and scientific equipment, chemicals and chemical products, electronic components and computers, machinery and equipment, transport equipment, rubber, plastics, and textiles. Significant natural resources in Israel include copper, phosphate, bromide, potash, clay, sand, sulfur, bitumen and manganese. The consensus among expert observers is that the physical infrastructure for business activities in Israel is good and that new and growing firms, as well as established businesses, are well supported with respect to access to roads, communications, electrical power, water and the like.[22]

During the 1950s and 1960s, after Israel's creation and independence, the country enjoyed rapid and impressive economic development and growth rates that often exceeded 10% annually. The 1973 Yom Kippur War severely disrupted the economic path of the country and the ensuing ten years included frequent periods of stagnation and triple-digit inflation. An economic stabilization plan was successfully implemented in 1985 and was followed by the introduction of market-oriented structural reforms. The economy received an unexpected infusion of additional resources—nearly one million immigrants from the former Soviet bloc—beginning in 1989 and into the 1990s. A number of these new residents were highly educated and brought the skills needed for ongoing development of Israel's high technology sector. In addition, as consumers they contributed to the strengthening and expansion of Israel's domestic market. The byproduct of all of these changes was a resurgence of the Israeli economy that led to rapid growth in the 1990s.

Israel's agricultural sector focuses on citrus and other fruits, vegetables, beef, dairy products and poultry. The strongest Israeli industrial sectors include high-technology projects (including aviation, communications, computer-aided design and manufactures, medical electronics, fiber optics), wood and paper products, potash and phosphates, food, beverages, tobacco, caustic soda, cement, construction, plastics, chemical products, diamond cutting and polishing, metal products, textiles, and footwear. Sectors and activities with the high percentage of members of the Israel workforce, estimated to be just over three million as of 2009, include manufacturing (16.2%); business activities (13.4%); education (12.7%); health, welfare and social services (10.7%); and transport, storage and communication (6.5%). At that time it was anticipated that Israel's high technology sector would remain a major driver of the Israeli economy in the years to come. High technology products were a large contributor (45%) to Israeli exports and transfer of technology and know-how with major innovators from around the world was facilitated by the presence of companies such as Intel, Motorola, IBM, and Cisco in Israel. The US has long been a dominant trading partner of Israel—the countries have been trading under a free trade agreement since 1985—and the principal goods exported

[22] E. Menipaz, Y. Avrahami and M. Lerner, Global Entrepreneurship Monitor (GEM): Israel National Entrepreneurship Report 2007 (Beersheba, Israel: Ben-Gurion University of the Negev, 2009), 68.

from the US to Israel have included civilian aircraft parts, telecommunications equipment, semiconductors, civilian aircraft, electrical apparatus and computer accessories. In turn, Israel's chief exports to the US have included diamonds, pharmaceutical preparations, telecommunications equipment, medicinal equipment, electrical apparatus and cotton apparel.

As Israel's economy has grown and matured, significant transitions have occurred with respect to worker attitudes and the roles and influence of specific institutional elements. Harpaz and Meshoulam noted that during its pre-Independence period and for the first thirty years following Independence, Israel "relied upon the existence of a centralistic economic and collectivistic ideological orientation".[23] Labor-oriented social democratic governments, headed by the country's Labor Party, ruled continuously during that period and pursued a "socialist-collectivist ideological doctrine" that had a strong and lasting impact on all aspects of Israeli life, including the economy, work values, the educational system and the day-to-day activities of life. In 1977, however, the Labor Party's hold on power ended and since then there has been a decided turn toward a "free market" economy and a more individualistic orientation among workers. Individual rights, rather than national collective needs, gradually became more important and were nurtured by a rising standard of living that brought more material values and increased exposure to American (individualist) cultural messages as globalization began to drive various sectors of the Israeli economy. Privatization of state-owned enterprises accelerated and Harpaz and Meshoulam observed that "government involvement in the market has gradually declined through the years . . . thus allowing market forces to operate" and Israel has transitioned from "a relatively centralized economy to a capitalistic market economy".[24]

Antal et al. pointed out that governmental regulation of the economy was pervasive during the early decades of Israel's existence due, in large part, to the extreme security challenges that the country faced and the need to cope with continuous waves of immigrants that needed to be integrated into the Israeli society.[25] Since the 1980s, however, deregulation and privatization has been occurring at a rapid rate and, when accompanied by globalization and evolving technological changes, have forced Israeli companies to learn how to compete in order to survive. The impact of these changes has been particularly harsh on state-owned enterprises and companies that had previously been controlled by the powerful Israeli unions (i.e., Histradut). In addition, since Israel did not have the natural resources, such as oil, possessed by its neighbors in the Middle East it needed to find other ways to thrive economically.

The significant impact that the growth and development of the high technology sector has had on Israel warrants further examination in light of the influence on the attitudes and skill requirements of managers and workers and the required shift in national economic

---

[23] I. Harpaz and J. Meshoulam, "The Meaning of Work, Employment Relations, and Strategic Human Resources Management in Israel", Human Resource Management Review, 20(3) (September 2010), 212, 213.
[24] Id.
[25] A. Antal, M. Dierkes and L. Marz, "Organizational Learning in Transformation Societies", Journal of General Management, 25(1) (1999), 17.

and political priorities.[26] The foundation for the emergence of an Israeli high technology sector was already in place during the 1950s when the country was heavily involved in development of advanced defense systems. During that period, Israel was able to develop the technological and human infrastructure that would eventually be deployed to first establish an electronic industry and then was expanded, in both the public and private sectors, to include new areas such as communications, medical products and printing. Interestingly, while many Israeli private firms were developing an international reputation for technological excellence and innovation, the government paid relatively little attention to the potential of the high technology sector until the 1970s when Israeli companies first achieved listing status on the US stock exchanges and many well-known multinational companies began investing in the research and development activities of Israeli companies. A shift in governmental policies to encourage free market activities, which began in earnest after the stranglehold on political power held by the Labor Party was ended in 1977, included support for research and development, removal of currency controls, encouragement of foreign investment and removal of protectionist barriers that injected competition into domestic markets for the first time. This quickly led to establishment of production facilities by large multinational technology companies, some of which also launched their own Israeli research and development labs that were well capitalized. An Israeli venture capital community emerged, government investment in research and development increased substantially and high technology sales grew from $1 billion in 1980 to over $7 billion in 1997, of which about 75% was exports. Harpaz and Meshoulam reported "Israeli hi-tech companies are taking the lead in some fields worldwide and actually defining new markets, for example, in the medical equipment field . . . Israel was rated by 'Wired Magazine' as number four in advanced technology centers in the world".[27]

Globalization is an external environmental factor that has had a substantial impact on Israeli society in general and on the country's economy in particular.[28] Israel's early history after independence was defined by isolation, protectionism and a strong focus on absorbing immigrants from the turmoil of World War II and defense of the country's borders from continued attacks by Arab neighbors. Characteristics of the Israel economy through the 1950s and 1960s included shortages of foreign currency, a massive allocation of public funds to defense, high unemployment, limited activities in the industrial sector and high customs duties. However, changes in Israeli political conditions coupled by security-related developments that helped reduce the barriers between Israel and the international community ultimately led to a dramatic opening of the Israeli economy which included substantial foreign investment and the emergence of a small, but influential, group of Israeli multinationals that became world leaders in areas such as

[26] The summary of the development of the high technology sector in this paragraph is adapted from I. Harpaz and J. Meshoulam, "The Meaning of Work, Employment Relations, and Strategic Human Resources Management in Israel", Human Resource Management Review, 20(3) (September 2010), 212, 218.
[27] Id.
[28] The summary of the impact of globalization on the Israeli economy in this paragraph is adapted from I. Harpaz and J. Meshoulam, "The Meaning of Work, Employment Relations, and Strategic Human Resources Management in Israel", Human Resource Management Review, 20(3) (September 2010), 212, 219-220.

textiles and pharmaceuticals. Harpaz and Meshoulam mention several reasons for "Israel's globalization shift", including the slow and steady progress of the peace process, which while not bring a final solution to borders in the region has at least improved overall security conditions; the growing reputation of Israel human capital, which is now routinely viewed as rich resource for high trained and innovative talent; the development of an advanced scientific infrastructure; large amounts of government support for research and development relating to technology and products with commercial, as opposed to strictly military, applications; international treaties, including numerous free trade agreements; and a general opening of the economy both inwardly and outwardly with explosive growth in the export sector and the introduction of large foreign multinational operators in Israel (e.g., McDonalds, Benetton, Toys R Us, etc.).

Israel began its path to becoming a world renowned innovation hub in the 1960s with the formation of companies such as ECI Telecom, Tadiran and Elron Electronic Industries, which came to be known as the "Fairchild of Israel".[29] Growth over the next two decades was slow but sure and was accelerated by the contracts with foreign multinationals that set up R&D units in Israel, efforts to develop a technologically-based advantage over the country's military foes and the dispersion of dozens of serial entrepreneurs throughout the Israeli economy from proving grounds such as the RAD Group.[30] While military-related R&D provided the basis for an array of new products, including a mini-computer that was developed in the 1970s by Elbit, digital printing systems and medical imaging devices, Israeli companies had difficulties with successfully commercializing those products due to shortcomings in the marketing area.[31] Israel's ability to design hardware products had become evident; however, it had no particular comparative advantage in that area and the technology industry struggled until the 1980s and early 1990s when Israel began to tap into its deep reservoir of human capital to become one of the serious players in what was become a global software market. A number of software companies were established and many of them were able to identify and exploit niches that had not yet been discovered and dominated by US firms. Further development of Silicon Wadi during the 1990s was facilitated by the arrival of scientists and engineers who had emigrated from Russia after the Soviet Union dissolved and the beginning of a period of relative peace that improved the overall environment for investment. Like other parts of the world, Israel also participated in the dot-com boom of the late 1990s and saw thousands of startups emerge between 1998 and 2001, over 50 of which completed initial public offerings in the US and on other international stock markets.

---

[29] "Land of Milk and Start-Ups", The Economist (March 19, 2008).
[30] Academic researchers who have studied the genealogy of the Israel technology industry have uncovered evidence that the RAD Group, a telecommunications firm founded in 1981 by Yehuda and Zohar Zisapel, produced 56 serial entrepreneurs who were collectively responsible for establishing 111 significant technology firms in Israel, thus making RAD Group "the most fertile ground" for Israeli growth-oriented entrepreneurship. See "The Mother of the Start-Ups: The RAD Group Gave Birth to 110 Companies", The Marker (January 18, 2012) and M. Myser, "The Startup Factory: How a Little-Known Israeli Telecom Became the World Most Successful Incubator", Business 2.0 (August 1, 2005).
[31] "Land of Milk and Start-Ups", The Economist (March 19, 2008) and K. Dolmadjian, "Israeli Innovators Build New 'Silicon Valley'", AFP (June 28, 2011).

The evolution of the Israeli technology industry has been accelerated by growing global demand for products using the technologies in which the Israelis excel including software, electronics and sophisticated industrial equipment and the country has created a fertile environment for innovation through support of high education, R&D, openness to immigration and the availability of low interest loans for startup businesses.[32] In addition, many Israeli university graduates are highly likely to seek positions in the IT industry or join startups, thereby gaining experience in the pursuit and development of technology products. On the downside, however, is the reality that Israel is heavily dependent on outside sources for raw materials and energy and the small size of its local market means that entrepreneurs must move quickly to find international markets for their products in order to survive and grow.

The emergence of the high technology sector and globalization has had a number of positive influences on Israel; however, it has also created new challenges, notably in the area of human resources management. In the workplace, managers have needed to transition from their traditional narrow focus on productivity and efficiency toward development and utilization of the talents of their workers and incorporating new motivational strategies and processes into their day-to-day interactions with their workers. At a societal level, Israel has been changing rapidly and most citizens are being introduced to influences, opportunities and challenges that could not have been dreamed of forty years ago. Multinational companies injected unprecedented levels of competition into the Israel domestic market, including new consumer expectations that needed to be understood and respected by Israeli firms. For example, competition brought decreases in prices accompanied by improvements in product quality and this led to consume demands for improved quality services. The construction of large shopping malls all around Israel changed buying habits of Israeli consumers and set new standards for Israeli manufacturers and retailers.

At the same time, Israeli society had to grapple with new social issues such as an expanding income gap between the rich and poor. The erosion of collectivist values and institutions within Israel society has undermined the sense of collective social responsibility that was so important during the early decades immediately following independence and the shift toward more open markets and abandonment of socialist ideologies has widened gaps in Israeli society even as per capita incomes and standards of living have continued to rise. Workers can no longer rely on Israel's once powerful trade unions to protect their interests in negotiations with employers and employers are now free to adopt differential wage systems that create clear winners and losers among their workers.

Israel has been a somewhat remarkable success story in the pantheon of innovation clusters given the many apparent challenges that must be overcome by growth-oriented entrepreneurs in the country including a small local market, geographic isolation that separates Israel's emerging companies from inputs and customers, language barriers, cultural and religious differences and, of course, several and continuous political conflicts

[32] "Is the ICQ Experiment Working", CNET News (May 9, 2001). See also C. de Fontenay and E. Carmel, Israel's Silicon Wadi: The Forces Behind Cluster Formation (June 2002).

internally and externally. In spite of these difficulties, Israel has a long record of developing large globally-active companies—Senor and Singer reported that as of 2009 Israel was second, behind the US, with regard to the number of companies listed on NASDAQ, exceeding the combined total of China, Europe and India—and launching and nurturing technology firms that eventually became desirable acquisition targets for multi-national corporations.[33] Several reasons have been offered for Israel's entrepreneurial success including, in the words of Grotsky, ". . . its strong technology-oriented military, its emphasis on education and research and development, a few visionary government policies that went a long way . . . a tradition of flat organizational structures and informality in the workplace . . . [and] . . . its existence as a melting pot of international cultures within an isolated society".[34] Another factor perhaps is the experiences that Israeli entrepreneurs gain during mandatory military service that have arguably served them well in developing and maintaining the energy and focus required to successfully launch and manage a startup.[35]

Israel has enjoyed an astounding, and in many ways quite surprising, transformation from a semi-socialist state continuously focused on defense and security issues to a global technology leader in a variety of fields. A number of books and articles have chronicled this journey including "Start-Up Nation: The Story of Israel's Economic Miracle", written by Senor and Singer. However, a recent article in The Economist[36] describes several key issues that Israeli policymakers, investors and entrepreneurs must address in order for the country to move "beyond the start-up nation" including expanding the role of high-tech firms as employers, building global technology players and successfully transferring know-how and talents to new emerging areas such as Internet content, water management, agricultural science and alternative energy. Another concern, which will not go away regardless how the intensely volatile political issues in the region are resolved, is how Israel ultimately integrates Arab-Israelis and ultra-orthodox Jews, who will together be about one-third of the population by 2025, into its business culture.

As of 2013 Israel had more engineers, scientists and PhDs per capita—135 per 10,000 in the workforce—than any other place in the world and half of the country's exports came from the technology industry.[37] Best known for defense- and military-inspired technologies, Israeli entrepreneurs have recently turned their attention to creating and developing healthcare products and applications using artificial intelligence and digital technology. R&D expenditures in Israel, even excluding spending on defense-related R&D, are an impressive 5% of GDP as of 2013, a level that is higher than any other Western country, and the government's office of the chief scientist has a substantial budget that includes funds that have been used for co-investment alongside the private sector, particularly in risky projects.[38] R&D in Israel is also supported through the

[33] D. Senor and S. Singer, Start-Up Nation: The Story of Israel's Economic Miracle (2009) and Israel Venture Capital Research Center (March 2010) (as reported in D. Grotsky, "Globalized Clustering", MIT Entrepreneurship Review (April 28, 2010)).
[34] D. Grotsky, "Globalized Clustering", MIT Entrepreneurship Review (April 28, 2010).
[35] M. Venkataramanan, "Europe's Hottest Startup Capitals: Tel Aviv", Wired (October 1, 2013).
[36] "Beyond the Start-up Nation", The Economist (January 1, 2011), 60.
[37] P. Abrar, What Makes Israel with Just Eight Million People, An Innovation Hub? (November 8, 2013).
[38] Id.

activities of a large number of multinationals including Amazon, Apple, Google, Intel, General Motors, Microsoft and GE, and each of the companies have recruited local talent to assist in uncovering innovations for use in Israel and around the world. Multinationals have found Israel to be particular attractive because of the audacity and confidence of the country's young scientists and engineers who have been trained not to follow instructions and to focus on leadership and solving problems. Multinationals provide space and other resources for Israeli startups and have been eager to acquire the most successful local companies as they matured.[39]

Tel Aviv's innovation cluster is widely known as "Silicon Wadi", the term commonly used to describe the Israeli coastal plain region in which there can be found a high concentration of technology-based companies, and has been flourishing, at least in part, from partnerships with a number of multinational companies—Google, Intel and IBM—that have set up operations in the area.[40] Many of these companies can be found in the area around Tel Aviv; however, clusters of emerging companies have also sprung up in Caesarea, Haifa and Jerusalem. The total area of Silicon Wadi has been estimated to be around 6,000 square kilometers, about half of the size of Silicon Valley.[41] In spite of the fallout from the dot-com boom by the early 2000s Silicon Wadi was consistently being recognized as an important global innovation cluster and in 2012 Tel Aviv was recognized as being one of the best places in the world to launch a technology-based startup, second only to Silicon Valley.[42] In addition to its local firms, by 2010 Silicon Wadi had become home to over 60 foreign R&D units engaged in a diverse range of activities including development of communications equipment, components, software, semiconductors and Internet communications products, and these units provided employment for more than 35,000 scientists, engineers and other professionals.[43]

§1:2 Entrepreneurship

Among the principal findings with respect to entrepreneurship in Israel as of 2007 listed in the Israel National Entrepreneurship Report published in connection with the activities of the Global Entrepreneurship Monitor (GEM) were the following[44]:

- Israel's population has a high level of awareness of entrepreneurship, and setting up a new business is considered as a challenging and promising career track. The highest

[39] Id.
[40] M. Venkataramanan, "Europe's Hottest Startup Capitals: Tel Aviv", Wired (October 1, 2013).
[41] "Land of Milk and Start-Ups", The Economist (March 19, 2008).
[42] After Silicon Valley, Tel Aviv Ranks Best for Tech Startups: Study, Bloomberg and Tel Aviv Named Top Startup Center, Israel21c.
[43] The IVC Research Center (www.ivc-online.com) is a comprehensive source of information on Israel's high technology industry with an online database that includes detailed listings of thousands of Israeli high-tech companies, venture capital and private equity funds, angles, investment companies, technological incubators, service providers, entrepreneurs and key executives, as well as industry news and reports, press releases and surveys.
[44] E. Menipaz, Y. Avrahami and M. Lerner, Global Entrepreneurship Monitor (GEM): Israel National Entrepreneurship Report 2007 (Beersheba, Israel: Ben-Gurion University of the Negev, 2009), 18-19.

level of entrepreneurial activity among Israeli men and women is found within the 25-34 age group.

- The percentage of total early-stage entrepreneurial activity in Israel in 2007 was 5.4% of the total adult population (aged 18-64) and among this group approximately 2/3 were involved in setting up a business that was less than one year old (referred to as "early-stage businesses" in the survey) and the remainder were involved as owners and managers of new businesses aged up to 42 months (referred to as "established businesses" in the survey).
- Israel ranks at the top of the global rankings with respect to the relative percentage of entrepreneurs in established businesses in the high and medium-technology sector (first among the GEM 07 countries[45]) and the relative percentage of early-stage entrepreneurial activity in the high and medium-technology sector (second among the GEM 07 countries). Overall, the percentage of technological entrepreneurship put Israel in second place among the GEM countries, behind Japan.
- For every four male entrepreneurs in the high-tech sector, there is one female entrepreneur (i.e., 80% men; 20% women). Other gender-based measures of entrepreneurship confirmed that mean were much more active than woman; for example, the overall ratio of women to men among entrepreneurs in early-stage businesses in Israel in 2007 was 0.50, meaning there was one woman entrepreneur for every two male entrepreneurs. Also, the percentage of established businesses owned by women was one of the lowest among the GEM countries.
- Most of the recorded entrepreneurial activity emanated from the population group of veteran Jewish residents of Israel as opposed to immigrants from the former Soviet Union and adult Israeli Arabs.
- The ratio between entrepreneurship opportunity driven and entrepreneurship based on necessity dictated by reality in Israel was an average of 74% (i.e., three out of four Israeli entrepreneurs as pursuing perceived "opportunities"). Moreover, a large percentage of the early-stage entrepreneurial businesses (28.5%) had high expectations of growth, which means they intend to employ at least 20 persons within five years, and this percentage—which accounted for nearly 1.2% of the adult population of Israel—was one of the highest among the GEM countries.
- Israeli entrepreneurs ranked fourth among the GEM countries, after Hong Kong, Iceland and Sweden, with regard to the importance they placed on marketing and selling products in global markets, an emphasis on exporting that is not surprising given that Israel is an "economic island" that depends heavily on external markets. In fact, 31% of the entrepreneurs expected to export between 25% and 100% of their products.

---

[45] Israel was one of 42 countries that participated in the GEM study in 2007 and a full list of the participating countries appears in the Israeli report at page 11. Israel was one of a number of countries that fell into the category referred to as "countries with high per capita income" and which also included the US, Great Britain, the Scandinavian countries, a number of European countries, Hong Kong and Japan. Other categories of countries included countries with medium and low per capita income in Europe and Asia and countries with medium and low per capita income in Latin America and the Caribbean. E. Menipaz, Y. Avrahami and M. Lerner, Global Entrepreneurship Monitor (GEM): Israel National Entrepreneurship Report 2007 (Beersheba, Israel: Ben-Gurion University of the Negev, 2009), 11.

- 17% of the entrepreneurs in new Israeli businesses indicated that their business was based on new technology that had existed in their sector for less than one year and 11.5% of those new businesses offered a unique product with no known competition.
- 25.7% of the entrepreneurs in new businesses were repeat entrepreneurs who had previously founded and owned a business in the past. There was a dramatic gap between the number of male and female repeat entrepreneurs: 35.8% of the men were repeat entrepreneurs while only 5.7% of the women were repeat entrepreneurs. A high percentage of the owners of established businesses, particularly male owners, had prior experience either as an entrepreneur or as a participant in the setup and management of another business.
- 54.3% of the business closures during the year preceding the survey were due to low or no profitability, the highest percentage among the GEM countries with respect to that reason. Other reasons for closing businesses included personal reasons (15.3%), finding a better business/employment opportunity (14.2%), opportunity to sell the business (14.1%) and problems obtaining financing (2.1%).

One of the most striking and promising findings with respect to Israel in the 2007 GEM survey was the remarkable incidence of Israeli entrepreneurs with expectations of high growth which, as mentioned above, was defined as an intent to employ at least 20 persons within five years. The researchers calculated the percentage of entrepreneurs with expectations of high growth in the total pool of early-stage businesses for each GEM country between 2000 and 2006 and found that the leaders were Singapore, Israel and China. Based on the 2007 numbers, Israel was in third place among the GEM countries with regard to early-stage businesses based on the finding that 38.1% of its entrepreneurs expected 50% growth and ten or more employees within five years. With respect to the 2007 numbers relating to established businesses, Israel ranked fourth among the GEM countries (11.3% of the entrepreneurs projected high growth). The researchers cited Israel's 2007 rankings, as well as the consistency of its performance with respect to high growth entrepreneurship in prior years, as an indication of the great potential in Israel for creating rapidly growing businesses that would provide new sources of employment.[46]

The Israel National Entrepreneurship Report also followed the GEM study model by conducting and discussing a survey of Israeli experts on a comprehensive array of entrepreneurial background conditions with constitute the "entrepreneurial environment" in Israel and in the other GEM countries. The following is a summary of some of the main conclusions[47]:

---

[46] E. Menipaz, Y. Avrahami and M. Lerner, Global Entrepreneurship Monitor (GEM): Israel National Entrepreneurship Report 2007 (Beersheba, Israel: Ben-Gurion University of the Negev, 2009), 26.

[47] The summary in this section is adapted from the full discussion that appeared in the Report at E. Menipaz, Y. Avrahami and M. Lerner, Global Entrepreneurship Monitor (GEM): Israel National Entrepreneurship Report 2007 (Beersheba, Israel: Ben-Gurion University of the Negev, 2009), 53-78. See, in particular, page 53 for a brief summary of each of the entrepreneurial background conditions which include financial support, government policy, government programs, education and professional training, transfer of research and development, commercial and professional infrastructure, market flexibility/entry barriers, accessibility, culture and social norms and protection of intellectual property. The report also addressed women's entrepreneurship and "the tendency to innovate among the population and the entrepreneurs".

- Significantly, Israeli experts ranked the area of financial support for new businesses in Israel higher than all of the other GEM countries, including the US which ranked a close second. The details are discussed elsewhere in this chapter; however, the only real area of concern noted by the experts was with respect to existence of available government subsidies for the advancement of new businesses.
- Israel's ranking with respect to governmental policies for the promotion of new businesses was 19th among the 31 GEM countries and the report specifically noted that conclusions of the experts that "new businesses encounter severe problems of bureaucracy, difficulties in obtaining permits, and a grudging, inconsiderate attitude toward the new entrepreneurs" and that "the attitude and behavior of government entities is . . . the greatest obstacle facing Israeli entrepreneurs".[48] Not surprisingly, the opinions of the experts with respect to governmental programs was similar and particular notice was taken of the difficulties that entrepreneurs encounter in obtaining information and guidance and the need for them to waste time going from agency to agency.[49]
- Education and training were significant concerns for the Israeli experts and their general view was the Israel's performance in these areas was declining rapidly to the point where it was a real threat to the overall development of the country in general and to entrepreneurship in particular. Notwithstanding these conclusions, however, the experts still ranked Israel at a point that was about average among the GEM countries with respect to education and training.
- The experts were generally positive about Israel's ability to transfer and assimilate research and development and noted that Israel was among the "top three" of the GEM countries with respect to efficient transfer of new technologies and science from public research centers and universities to new and growing ventures poised to create applications of the transferred technology.[50] Israel was also well regarded with respect to the quality of its scientific and technological base and support given to commercialization activities of scientists, engineers and entrepreneurs.[51]
- The experts recognized that Israeli entrepreneurs enjoy the benefits of a very well developed business services infrastructure, including access to high quality legal and

---

[48] E. Menipaz, Y. Avrahami and M. Lerner, Global Entrepreneurship Monitor (GEM): Israel National Entrepreneurship Report 2007 (Beersheba, Israel: Ben-Gurion University of the Negev, 2009), 58.

[49] Id. at 59-60. The experts did rank Israel highly with respect to support for science parks and technological incubators; however, this again illustrated differences between support for technological startup companies and conventional businesses. With respect to conventional businesses, the experts were sharply critical of the government's inability to formulate and execute a policy for promotion of such businesses and found the attitudes and activities of the Ministry of Industry, Trade and Employment to be weak in this area. Later in the Report, it was recommended that the government take steps to establish incubators for non-high-tech small businesses characterized by innovation and potential for rapid growth. Id. at 81.

[50] While technology transfer activities were praised, the Report recommended against each research institute attempting to commercialize its technologies on its own and suggested that it would be more efficient for a few well-established, experienced companies or institutions to provide commercialization services for technologies developments. Id. at 82.

[51] Consistent with the issues discussed above relating to governmental policies and programs, the one area in which Israel lagged behind many of other countries was with respect to governmental encouragement of the acquisition of new technologies. Id. at 64.

accounting services and suppliers, subcontractors and consultants at high standards and affordable rates. One area that was somewhat problematic was the difficulties encountered by many new businesses with no ongoing, recognized track records in obtaining quality services from Israeli banks.[52]

- The Israeli market was described as one with "relative stability", which means that the experts believed that there were no dramatic year-to-year changes with respect to "either consumer goods and services nor to business-to-business services and trade".[53] The experts noted that "this situation enables planning and adaptation."[54]
- Israeli societal culture has been undergoing a significant transition from collectivism to individualism, a trend noted by the experts, and this appeared to be a major contributor to Israel's ranking at the top of the GEM countries with respect to "social and cultural norms" that support entrepreneurship. In particular, the experts perceived that "Israeli culture appreciates and encourages autonomy, independence, personal initiative, creativity and innovation".[55]
- The experts ranked Israel in the middle of the pack of GEM countries with respect to protection of intellectual property rights, noting that while the legislation that has been adopted is comprehensive there are issues with regard to enforcement that need to be addressed. In particular, the experts noted that counterfeiting is prevalent and that the competitive business environment in Israel often leads firms to engage in risky activities such as producing and marketing products and brands that infringe on the rights of others.
- The experts ranked Israel 17th out of the 31 GEM countries on "perceived women's entrepreneurship". As noted above, the representation of women among the ranks of Israeli entrepreneurs is markedly poor and the experts noted that while there are enough cultural and educational services for women in Israel to support their entrepreneurial aspirations, women are not encouraged by the government to set up their own businesses and have a lower level than men of the knowledge and skills required in order to successfully launch a business.[56]
- The experts ranked Israel 3rd among the 31 GEM countries, just behind the United Arab Emirates and the US, with regard to "tendencies toward innovation". Among other things, this means that Israeli firms are open to experimenting with new technologies and processes, larger and more established Israeli firms are will to integrate younger companies in their supply chains and Israeli consumers are willing to try new products and services. However, Israelis are sophisticated and demanding

---

[52] The Report recommended that steps be taken to improve programs that would allow small and medium-sized businesses to obtain access to government loan guarantees and presumably such programs would cause private lenders to be more willing to extend credit to such businesses. Id. at 80.
[53] Id. at 66.
[54] Id.
[55] Id. at 70. The experts also believed that "Israel has a clear and well-recognized entrepreneurial culture, which is supported by the successes of entrepreneurs, by media exposure of entrepreneurial successes, the entrepreneurs' new status, the wealth obtained, and the social recognition which accompanies it". Id. at 72.
[56] The Report included a series of recommendations regarding women's entrepreneurship in Israel, including establishing more training and preparation programs, creating incentives for women to pursue entrepreneurial paths, coping with cultural and religious norms that might discourage women from entrepreneurship and affirmative programs relating to women's entrepreneurship. Id. at 80.

in their tastes and will reject new technologies and products that fail to perform as promised.

The Report concluded with a series of recommendations to expand the ranks of new entrepreneurs and businesses in Israel, including ideas about improving government services for new businesses, recommendations for the financial and regulatory area, ideas for improving education and professional training, proposals with respect to business incubators and recommendations in the area of research and development.[57] For example, improvement of governmental policies and services with respect to entrepreneurship and establishing new businesses was definitely an area of concern in the survey and the Report suggested a number of structural changes, including the establishment of a central governmental entity to formulate and execute an entrepreneurship support policy, the establishment of a State-owned national guidance center to provide a "one-stop shop" for entrepreneurs seeking information and implementation of legislation to simplify the business licensing process.[58] In addition, improvement of education and training in Israel was another important recommendation from the survey and the Report called for "a fundamental change in the perceptions of the Ministry of Education . . . with regard to training Israel's youth in the sciences, engineering and technology". In addition, the Report called for the Ministry of Education and universities to expand their training for entrepreneurs and the skills required in order to establish and grow successful new businesses.[59]

Some of the most intriguing and sophisticated recommendations were made with respect to research and development activities in Israel, something that is not surprising in light of Israel's status as a "high tech" nation and the integral role that research and development is expected to play in generating future employment opportunities in Israel.[60] A primary focus is on transitioning Israel away from being an "exporter of technology" toward a domestic industrial production and development infrastructure that will allow patents and other technology developed by Israeli academics to be transferred to local firms who can efficiently commercialize these valuable assets. The Report also recommended creation of a major biotechnology initiative, included preferred financing and other support for start-up companies in the life sciences area. A related idea is to increase pre-seed funding sources for companies interested in biotechnology and medicine. Finally, changes in applicable laws are required to clarify the rights of the government and private companies with respect to use of technologies created during research and development activities funded by the government, with the intent being that private companies can have greater piece of mind in their right to use such technologies to grow their businesses which reserving for the government sufficient rights and protections to ensure that it has an incentive to continue providing funding.

Manna reported on the views of Schuchman, a Tel Aviv entrepreneur and a veteran observer of the city's startup world, regarding the characteristics of successful Tel Aviv-

[57] Id. at 79-83.
[58] Id. at 79.
[59] Id. at 80-81.
[60] Id. at 82.

based entrepreneurs, which included confidence, bordering on arrogance, regarding their ideas and ventures; generosity as evidenced by a willingness to share ideas and collaborate with others; hunger for success that drives them to continuously pitch their ideas; thriftiness, which leads to a focus on conservation of resources and lean operations during the growth stages of the new venture; an understanding of the value of the external environment as a source of fresh ideas and connections; an ability to generate and manage a reasonable level of stress to facilitate the development of solutions for customer problems; a capacity for being supportive toward peers and would-be competitors; and a trace of insubordination that includes a disdain for bureaucracies and the status quo.[61]

Israelis have been distinguished from their entrepreneurial counterparts in other innovation clusters outside of the US as being uncommonly ambitious and one venture capitalist from the UK referred to Israel as "Silicon Valley for the rest of the world".[62] Reasons given for this attitude include the role of the Israeli military and the mandatory military service requirements that Israelis must satisfy; the unique culture of a religious community that has battled through centuries of oppression, sometimes derisively referred to as "religious exceptionalism"; familial pressures to succeed (i.e., the "Jewish mother" syndrome); immigration; a sense of dissatisfaction with the current state of affairs; a societal fondness for continuous tinkering with technology; and a range of governmental policies launched to provide a friendly environment for startups.[63]

In the next GEM National Report on Israel based on data collected during 2010—the GEM 2010 Report—researchers placed Israel 47th among the 60 countries surveyed globally in terms of total early-stage entrepreneurial activity (TEA) and reported that among the 23 innovation-driven countries surveyed Israel was 13th.[64] Among the innovation-driven countries Israel scored relatively well with respect to entrepreneurial intentions, positive views within society of entrepreneurship as a good career choice and according high status to successful entrepreneurs; however, Israelis bemoaned what they perceived to be a lack of opportunities for starting new businesses and the fear of failure within the entrepreneurial community had increased during the three year period since the previous GEM survey. The researchers explained that Israeli entrepreneurs clearly seemed to be negatively influenced by the global economic crisis that had begun in 2008 and was continuing at the time they were surveyed and that the evidence could be found through several indicators including a drop in the rate of start-ups, the shrinking of the

---

[61] J. Manna, Do You Embrace These 8 Killer Startup Characteristics? (May 10, 2013).

[62] B. Rooney, "Israel's Big Tech Sector Looks to Produce Bigger Companies", The Wall Street Journal (October 23, 2013).

[63] See B. Rooney, "Israel's Big Tech Sector Looks to Produce Bigger Companies", The Wall Street Journal (October 23, 2013); and D. Senor and S. Singer, Start-up Nation: The Story of Israel's Economic Miracle (2009). Interestingly, Senor and Singer were disdainful of arguments that focus on ethnic or religious exceptionalism or "unitary Jewishness" as the primary drivers of Israel's innovation society and argued that the most important factors were mandatory military service and immigration, explaining that military service provided young people with skills, contacts and confidence to discharge important responsibilities in a creative manner and that immigrants infused the Israeli community with a tolerance and enthusiasm for risk-taking. Id.

[64] E. Menipaz, Y. Avrahami, Y. Avrahami and M. Lerner, GEM 2010 Israel National Entrepreneurship Report (2011).

technological sector and overall declining use of cutting-edge technologies, a decrease in the number of overseas customers and in the volume of exports and a decline in high-growth aspirations among entrepreneurs. In general, Israeli entrepreneurs were really being challenged by tougher competition in the global markets that they sought to reach and difficulties in finding new customers and retaining existing ones, many of which were cutting back on their purchases due to their own business problems. One of the interesting finding in GEM 2010 was that Israeli females outpaced their male counterparts with respect to opportunity-driven entrepreneurship and the researchers found that the fear of failure among women was decreasing and they expressed a growing confidence in their skills and know-how and rising expectations with respect to near-term opportunities to start a new business.

The 2010 GEM Report provided some of the first formal insights into networking activities of Israeli entrepreneurs and their patterns and practices with respect to seeking advice regarding the launch and management of their new businesses.[65] The researchers argued that networking could be expected to influence outcomes such as innovation, exporting and growth-expectations and noted that the amount and type of networking would likely depend on prevailing norms in a country's societal culture; attributes of the specific entrepreneur, such as gender, age and education; and the characteristics and stage of development of the business. Among nascent entrepreneurs, persons in the first stages of setting up a new business (i.e., organization of the team, resources, equipment, location and business plans), the most common form of networking involved people with extensive business experience, a spouse or life companion, and other entrepreneurs contending with the same situation. Advisory support from customers and suppliers came next in line for nascent entrepreneurs and, interestingly, the group found input from public advisory service and banks to be of low important and providing lesser value. As businesses progressed and developed, their owners and managers tend to rely less on their spouses or life companions and more on experienced experts, accountants and close friends. The GEM researchers analyzed differences between male and female entrepreneurs with respect to networking and found that women in all demographic segments and in different phases of entrepreneurship tended to receive and use more advice than their male counterparts, but that the networking systems developed by women were narrower, less developed and less effective than male networks.

The GEM Israel 2012 report, issued in 2013 using data collected the previous year, indicated that early stage entrepreneurial activity in Israel had increased since 2010, as did the country's level of established business ownership, and that 70% of the early stage entrepreneurial activity entrepreneurs motivated by opportunities, rather than necessity, in seeking to launch their new ventures.[66] Growth aspirations among new businesses had increased slightly from 2010 to 2012; however, growth aspirations among established businesses, many of which had been pummeled by the economic crisis, declined substantially and there was an overall lack of confidence among Israelis generally regarding the availability of good opportunities to start new businesses. Israel lagged

[65] E. Menipaz, Y. Avrahami, Y. Avrahami and M. Lerner, GEM 2010 Israel National Entrepreneurship Report (2011).
[66] E. Menipaz, Y. Avrahami and M. Lerner, GEM Israel 2012 National Summary (2013).

behind most of the other innovation-driven countries in the GEM survey with respect to the proportion of early-stage entrepreneurs involved in technology and the researchers found that use of the latest cutting-edge technologies among Israeli entrepreneurs remained stagnant. Not surprisingly, Israeli entrepreneurs were near the top of the global rankings of GEM countries with respect to reliance on foreign customers. After reviewing and reporting the total new entrepreneurial activity and established business rates for Israel from 2002 through 2012 the researchers concluded that the period had been one of great volatility and that entrepreneurship in Israel was still struggling to return to the levels enjoyed at the beginning of the century.

A large percentage of the national experts surveyed in connection with the GEM Israel 2012 report cited constraints of financial support as the main entrepreneurial inhibitor in Israel, noting that the country's uncompetitive banking system still appears to be tilted toward favoring large businesses.[67] Government policies, as well as the high levels of governmental bureaucracy and regulation, were also criticized by the experts for their negative impact on establishment and development of new businesses in Israel. On the other hand, half of the experts felt that Israeli culture and norms were significant positive influences on entrepreneurship more than a quarter of the experts cited entrepreneurial capacity (i.e., know how, skills and motivation) and the country's educational system, including vocational and professional training, as advantages and support factors for the country's entrepreneurs. Other supports for Israeli entrepreneurship mentioned by the experts included the high level of human capital in the country and good R&D transfer. The main recommendations of the national experts included further investment in education and training focused on enhancing entrepreneurial capacity and reforms to governmental policies and programs in a wide range of areas relating to entrepreneurship including access to financing and advice and support for female entrepreneurs. A number of experts also mentioned the need to enhance market openness and create a more competitive internal market, remove entrance barriers for new businesses, reduce bureaucracy and corruption and increase transparency.

§1:3 Leadership

Leadership practices and styles in Israel are rooted in the characteristics of the country's societal culture. Measures of societal culture in Israel based on Hofstede's model have uncovered a very small power distance, among the lowest in the world, and a moderately strong aversion to uncertainty.[68] It should be noted, however, that experts participating in a series of annual reviews for the global survey of entrepreneurship conducted by the Global Entrepreneurship Monitor (GEM) observed that Israeli culture encouraged "risk-taking" by entrepreneurs.[69] While Israel has generally been found to be in the mid-range globally with respect to collectivism, several studies have concluded that collectivism in

[67] Id.
[68] G. Hofstede, Motivation, "Leadership and Organization: Do American Theories Apply Abroad", Organization Dynamics, 9 (1980), 42, 51-54.
[69] E. Menipaz, Y. Avrahami and M. Lerner, Global Entrepreneurship Monitor (GEM): Israel National Entrepreneurship Report 2007 (Beersheba, Israel: Ben-Gurion University of the Negev, 2009), 71.

Israel is gradually eroding for a variety of reasons.[70] Schwartz placed Israel's Jewish community within his "mastery" category of cultural values, meaning that members of that community emphasized seeking to actively master and change the world and that individuals were encouraged to be independent and ambitious, strive for success and choose their own goals.[71]

The GLOBE researchers placed Israel within their Latin Europe cluster with Italy, Spain, Portugal, France and French-speaking Switzerland and found Israeli societal culture to be high with respect to performance orientation, in-group collectivism and humane orientation and low with respect to power distance.[72] With respect to leadership, Israelis believed that the charismatic/value based and team-oriented leadership styles were most effective and gave their strongest endorsements to leadership attributes such as integrity, visionary, inspirational, performance-oriented, decisive and team integrator. On the other hand, Israelis believed that leaders who could be characterized as autocratic, face-savers, self-centered, malevolent or procedural were ineffective.[73]

Antal et al. argued that a key characteristic of organizational learning among the larger Israeli companies that they studied during the 1990s was the presence and influence of visionary leaders who had the insight and courage to identify the need for changes in their organizational designs and the skills necessary for enthusing their employees about the need to make such changes and overcoming resistance to the introduction of new ideas.[74] Differences in leadership styles among Israeli companies studied by Antal et al. could be seen in the way that leaders responded to changes in the external environment and the managed the collection and flow of information relevant to the strategies and operations of their companies. Leaders of "centralistic" companies, which were older and more traditional and hierarchical, were slow to acknowledge that strategies and methods that had been successful in prior decades, when the Israeli was more regulated and globalization was not yet a significant factor, might not be appropriate any longer and proudly, and somewhat defiantly, pronounced their respect and adherence to traditional ways. Antal et al. reported that "unwelcome information" was often ignored

[70] See, e.g., D. Birenbaum-Carmeli, "Between Individualism and Collectivism: The Case of a Middle Class Neighborhood in Israel", The International Journal of Sociology and Social Policy, 21 (2001), 1-25; P. Early, "East Meets West Meets Mideast: Further Explorations of Collectivistic and Individualistic Work Groups", Academy of Management Journal, 36 (1993), 319; S. Sagy, E. Orr and D. Bar-On, "Individualism and Collectivism in Israeli society: Comparing Religious and Secular High-School Students", Human Relations, 52 (1999), 327.

[71] S. Schwartz, "A Theory of Cultural Values and Some Implications for Work", Applied Psychology, 48(1) (1999), 23.

[72] D. Den Hartog, R. House, P. Hanges, S. Ruiz-Quintanilla, and P. Dorfman, "Culture Specific and Cross-Culturally Generalizable Implicit Leadership Theories: Are Attributes of Charismatic/Transformational Leadership Universally Endorsed?", The Leadership Quarterly, 10(2) (1999), 219; and R. House et al. (Eds.) Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies (2004).

[73] D. Den Hartog, R. House, P. Hanges, S. Ruiz-Quintanilla, and P. Dorfman, "Culture Specific and Cross-Culturally Generalizable Implicit Leadership Theories: Are Attributes of Charismatic/Transformational Leadership Universally Endorsed?", The Leadership Quarterly, 10(2) (1999), 219; and H. Kabasakal, A. Dastmalchian, G. Karacay and S. Bayraktar, "Leadership and Culture in the MENA Region: An Analysis of the GLOBE Project", Journal of World Business, 47 (2012), 519.

[74] A. Antal, M. Dierkes and L. Marz, "Organizational Learning in Transformation Societies", Journal of General Management, 25(1) (1999), 17.

by the leaders of these companies and the bearers of such information were often pushed aside, an outcome that predictably caused people to simply keep their mouths shut and not make waves that might cost them their jobs. Centralistic companies also had tall organizational structures that impeded the flow of vertical flow of information. In contrast, executives and managers from decentralized companies included in the survey had flattened their organizational structures and decentralized their decision making processes based on the belief that it was unwise and unrealistic to assume that past successes would continue that new tools were needed to cope future opportunities and threats. Leaders of these types of organizations also reformed paths for the flow of information throughout their companies and rewarded, rather than punished, reports about the external environment that could be used to improve products and services.

§1:4 Management

The qualities that Israelis appear to admire most among their managers include individual skills and qualifications, a sense of initiative, outstanding dynamism, a willingness to adapt, team spirit and leadership, fairness, professional and military experience, academic training and firm knowledge.[75] Since Israel is a country of immigrants, a manager's personal background has little influence on his or her relationship with subordinates, or how subordinates perceive their manager, and the most important thing in terms of establishing respect for a manager is displaying appropriate and effective professional skills. Israel managers accept a certain level of informality in their relationships with subordinates, including allowing subordinates to address them using their first name; however, managers expect subordinates to meet the goals and deadlines that have been established for them and will closely manage the workloads of those reporting to them until they have demonstrated that they can be trusted to perform and thus can be given more leeway with respect to how they carry out their duties. Israeli companies tend to be quite egalitarian in terms of participation in decision making and debates on topics that come up in the workplace generally are conducted in an open manner at staff or work team meetings; however, once a director or manager has made a decision it is expected that everyone involved will follow the course that he or she has selected. Meetings are conducted based on a formal agenda, do not last long and are tightly focused on achieving specific goals and then moving on to the next task.

The traditional values of the kibbutz ideology have played a significant role in the collectivist nature of the typical Israeli workplace that existed for many years prior to and immediately following independence. As time went by, however, the homogeneous nature of Israeli society was transformed by waves of immigration that introduced a wide array of new and different cultural influences. As a result, the Israeli workplace includes not only Jews, but also Arabs, Muslims and Christians, as well as immigrants from a wide array of countries including the large number of Eastern Europeans who moved following the disintegration of the Soviet bloc. In addition, Israel has become much more diverse on a variety of other dimensions, including age, gender and socio-economic

[75] The discussion of Israeli managerial practices and styles in this paragraph is adapted from Foreign Affairs and International Trade Canada: Centre for Intercultural Learning, Cultural Information: Israel; and from Culture Crossing: Israel.

status, and has embarked upon economic changes that have injected new issues and factors into the mix of workplace cultures, notably the increase in foreign participation in the Israeli economy through inbound investment and the rise of activities in the dynamic high technology sectors. The byproduct of these changes has been a transition in the underlying beliefs, norms and work values in the Israeli workplace, as explained by Lund et al.: "The kibbutz ideology has waned and workers now place a greater importance on values such as employee empowerment, participation in decision making, job enrichment and career development. This has required all managers to integrate modern management practices such as high-commitment and open book management."[76]

A survey of US senior managers regarding their perception of Israeli executives revealed praise for the hospitality, creativity, innovation and readiness to work hard among the Israelis; however, the Americans also criticized the Israelis for being too tough, aggressive and overly self-confident in negotiations; lacking the loyalty required to build and maintain a sense of long-term commitment; reluctant to disclose sensitive, yet important, financial information; and inconsistent with respect to meeting deadlines and fulfilling previously agreed commitments.[77]

While Israel appears to have it sights set on becoming and remaining a global player in a number of technological areas, there are genuine concerns about whether or not Israeli companies can overcome their historical tendency to "sell early" and build large and enduring technology firms that remain independent and are not gobbled up by larger foreign multinationals that siphon intellectual property and talent away from the country.[78] Senor and Singer speculated that one reason for all of this is that Israeli has not yet been able to develop the mature management culture that is needed to lead and manage large companies with thousands of employees spread out across business units operating worldwide.[79]

§1:5 Organizational design

Antal et al., who had noted that the Israeli economy was undergoing a significant transformation during the 1980s and 1990s due to deregulation, privatization and coping with globalization, sought to analyze the changes in organizational learning among a group 43 large Israeli companies—over 500 employees—and provided interesting insights into the organizational structures traditionally used by those companies and the changes in those structures that were underway.[80] Their data, collected in 1994, led them to suggest that there were three typologies of organizational structure at work among

[76] J. Lund, J. Manion, I. Teller, T. Tran and A. Zak, Israel: Country Briefing (2004) (citing A. Sagie and J. Weisberg, "The Transformation in Human Resource Management in Israel", International Journal of Manpower, 22(2) (2001), 226).
[77] D. Isenberg, The Image of the Israeli Executive as Perceived by American Customers and Partners, Israeli Management Culture (1993), 141-146.
[78] B. Rooney, "Israel's Big Tech Sector Looks to Produce Bigger Companies", The Wall Street Journal (October 23, 2013).
[79] D. Senor and S. Singer, Start-up Nation: The Story of Israel's Economic Miracle (2009).
[80] A. Antal, M. Dierkes and L. Marz, "Organizational Learning in Transformation Societies", Journal of General Management, 25(1) (1999), 17.

large Israeli companies. The first group included companies that were, or had recently been, owned by the state or Histradut, the country's powerful labor union, were characterized as being "centralistic" with clear hierarchical structures and concentration of decision making in the hands of top management. The second group was at the other end of the spectrum from the centralistic organizations and included a handful of companies that had adopted "decentralized" organizational structures which were operated with an emphasis on teamwork and using decision making processes with broad inputs and participation. The situation among the companies in the third group, which was the largest, mirrored the transition in the general Israeli economy at that time in that their organizational structures were slowly evolving away from being "centralistic" to structures that were described as "hybrids" and reflected real attempts to reduce hierarchical levels, create flatter structures and decentralize decision making. One of the interviewees from a hybrid company explained: "We are convinced that, in our business at least, the fewer the rules, the more room for creativity and non-conformism, the better the business will fare. In a world of such fierce global competition, the rules of the game need to be redefined constantly in order to survive."[81]

Antal et al. illustrated one of the key differences among the three typologies of organizational structure by looking at how each group handled monitoring and identifying signals from their external environment and communicating that information throughout the organization. Predictably, all of the important information at the "centralistic" companies was collected at the top of the organizational hierarchy by the CEO through personal contacts and activities and the CEO maintained control over how the information was distributed and used by the company. In contrast, companies in the other two groups took a very different approach by consciously distributing responsibility for information gathering throughout their organizations. For example, managers and employees involved in marketing and service-related roles that put them into direct contact with customers were perceived as valuable sources of information on changes in the company's external environment and some of the "decentralized" and "hybrid" companies had created special staff functions focusing on business intelligence that collected and distributed information throughout their organizations. Some of the centralistic companies had also experimented with business intelligence units; however, the information collected by those companies was not widely disseminated and reports were typically limited to the CEO and board of directors.

§1:6 Organizational culture

In the years prior to and immediately following Israeli independence, Israel has a relatively homogeneous society due in large part to its geographical and political isolation. A very important element of cultural history for Israel is the prevalence of socialist communities called "kibbutz", which is a Hebrew word that translates to "communal settlement". While much has been written about the roles and activities of the kibbutz, Lund et al. provided the following concise summary: "The kibbutz is a

---

[81] Id. See also D. Grotsky, "Globalized Clustering", MIT Entrepreneurship Review (April 28, 2010) (emerging companies in Israel have a long-standing tradition of flat organizational structures and informality in the workplace.).

unique rural community; a society dedicated to mutual aid and social justice; a socioeconomic system based on the principle of joint ownership of property, equality and operation of production, consumption and education; the fulfillment of the idea 'form each according to this ability, to each according to his needs'; a home for those who have chosen it."[82] The kibbutz has existed for over eighty years and even though Israeli society has become more heterogeneous as the country has grown and immigration has brought peoples from different backgrounds to Israel, the principles described above continue to appear in many aspects of contemporary Israeli societal culture. However, the Israeli workplace has seen a significant transition away from the values associated with the kibbutz ideology and a decided shift from collectivism toward individualism and materialism.[83]

Israel has a smaller power distance preference than the US and is stronger than the US with respect to uncertainty avoidance.[84] While the US is consistently ranked as the most individualist country in the world, Israel has been found to be 19th out of 49 countries with respect to collectivism.[85] Finally, the US and Israel are both near the midpoint of the masculine/feminine axis with the US being moderately more masculine than Israel.[86] The most striking observations with respect to the cultural scores of Israel, which has not been measured for long-term orientation, are the very small power distance and the relatively strong aversion to uncertainty. Orthodox Judaism calls for men and women to live separately lives and places women in an inferior position that excludes them from

---

[82] J. Lund, J. Manion, I. Teller, T. Tran and A. Zak, Israel: Country Briefing (2004). Lund et al. also commented on the impact of elements of the Jewish value system that were important foundational principals for the formation of Israel, including "the idea that humans establish institutions and relationships on grounds of fundamental equality". These values were consistent with the collectivism embodied in the kibbutz system and ideology. Id. (citing D. Elazar, Kinship and Consent: The Jewish Political Tradition and Its Contemporary Uses (Ramat Gan, Philadelphia, London and Montreal: Turtledove, 1981).

[83] Israeli experts participating in a series of annual reviews for the global survey of entrepreneurship conducted by the Global Entrepreneurship Monitor (GEM) have also observed a steady and continuous shift from collectivism to individualism over the last few years and also pointed out that this has led to an increase in the inequality of income distribution that has been accompanied by a growing acceptance of the legitimacy for the inequality. See E. Menipaz, Y. Avrahami and M. Lerner, Global Entrepreneurship Monitor (GEM): Israel National Entrepreneurship Report 2007 (Beersheba, Israel: Ben-Gurion University of the Negev, 2009), 71.

[84] It should be noted, however, that even though Israel was stronger than the US with respect to uncertainty avoidance, experts participating in a series of annual reviews for the global survey of entrepreneurship conducted by the Global Entrepreneurship Monitor (GEM) observed that Israeli culture encourages "risk-taking" by entrepreneurs. See E. Menipaz, Y. Avrahami and M. Lerner, Global Entrepreneurship Monitor (GEM): Israel National Entrepreneurship Report 2007 (Beersheba, Israel: Ben-Gurion University of the Negev, 2009), 71.

[85] The tendency toward collectivism in Israel, which is gradually eroding for a variety of reasons, has been confirmed by several other studies. See, e.g., D. Birenbaum-Carmeli, "Between Individualism and Collectivism: The Case of a Middle Class Neighborhood in Israel", The International Journal of Sociology and Social Policy, 21 (2001), 1-25; P. Early, "East Meets West Meets Mideast: Further Explorations of Collectivistic and Individualistic Work Groups", Academy of Management Journal, 36 (1993), 319; S. Sagy, E. Orr and D. Bar-On, "Individualism and Collectivism in Israeli society: Comparing Religious and Secular High-School Students", Human Relations, 52 (1999), 327.

[86] G. Hofstede, "Motivation, Leadership and Organization: Do American Theories Apply Abroad", Organization Dynamics, 9 (1980), 42, 51-54.

most of the important traditional religious activities; however, Israeli society as a whole is much more progressive on gender issues and men and women are typically afforded equal status on most legal and social measures. For those that actively practice their religion in Israel, Jews and non-Jews alike, rituals are quite important and daily life includes carving out time for prayer.

Understanding the personal background of others, including information regarding their family, is important among Israelis, and Israelis generally prefer to defer discussions of work until they know the other party a bit better and a sense of mutual trust has been established.[87] In general, Israelis are casual in their demeanor, although they do have a tendency to speak loudly and quickly, and Israeli social relationships lack a feeling of distance. Israelis are well known for being honest, direct and frank and for voicing their opinions in a straightforward manner. Public displays of affection, anger and other emotions are commonplace and accepted as normal. The workplace environment is Israel in generally quite relaxed—casual attire is the norm throughout the organizational hierarchies—and interaction among colleagues has been described as "very straightforward, spontaneous, and almost family-like".[88] The work ethic within Israeli organizations focuses keenly on making sure that everyone understands and accepts that they should be working together toward the good of the company and should be doing so in a pleasant environment that stresses teamwork.

Apart from Orthodox Judaism and its specific ideas regarding the role of women in the family, male-female relationships within the Jewish population of Israel are generally equal in most areas and women have achieved success in politics, the military and the workplace. However, progress has often been difficult for women, as women has tended to be viewed as not being as capable as men. As managers, women are slowly but surely being accorded the same level of respect as men and have generally been granted the same rights and authority as their male colleagues with respect to decision making; however, as is the case in the US and other more developed countries, one finds many instances of women being paid less than men with the same qualifications and skills. While Jews are the dominant religious group in Israel in terms of numbers, Christians and Muslims can also be found and, in general, the three groups work well together while typically preferring to maintain their own communities outside of the workplace. The Jewish community is not monolithic and the long-standing tensions between observant and secular Jews are well-documented. Within the Jewish community there is substantial ethnic diversity due to large number of countries from which immigrants to Israel have come over the last several decades and while this has created a society in which multiple languages are used within the same department at Israeli companies there is generally a feeling of respect and tolerance that spans ethnic backgrounds. Notice should be taken, however, that there has been a widening wealth gap in Israel and many people in the middle and lower classes in terms of income and economic resources are struggling while those at the top have been accumulating more wealth in relation to the rest of society.

[87] The discussion of Israel cultural characteristics in this section is adapted from Foreign Affairs and International Trade Canada: Centre for Intercultural Learning, Cultural Information: Israel; and from Culture Crossing: Israel.
[88] Id.

While the government has recognized the dangers of wealth inequality it has been hampered in its efforts to provide assistance given that substantial portions of the public budget are dedicated to maintaining and strengthening national security.

Antal et al. observed differences in the organizational cultures among 43 large Israeli companies in their study of organizational learning conducted in the 1990s and specifically noted that those companies categorized as "decentralized" and "hybrid" and which had implemented flatter organizational structures and decentralized decision making had embraced incremental and evolutionary learning processes as part of their organizational cultures.[89] In these companies, value was placed on employees who did not limit themselves to clearly defined tasks and responsibilities but proactively searched for new solutions without waiting for a crisis to arise. In contrast, companies that Antal et al. categorized as "centralized" were slow to embrace change and operated with organizational cultures in which employees were conditioned to simply stick to the task in front of them and take orders from the top of the hierarchy. Changes were difficult for these companies since they were owned by the state or large trade unions and changes by state-owned companies hinged on governmental approvals that often took months to obtained and changes in union-owned companies in the personnel area, often crucial to influencing organizational cultures, could not be made without union approvals that were often based on considerations other than quality and competence.[90]

Drory and Vigoda-Gadot explained that collectivism had traditionally played an important role in Israeli societal culture for a number of reasons including the historical background of the Jewish heritage of the clearly majority of the population, which featured long periods of persecution that fueled a strong sense of share identify and mutual responsibility among Jews; the development and influence of Zionist movement in Israel, which was based on collectivist ideas and strongly influenced, both philosophically and practically, by the socialist, communist and Marxist movements that began in the early 20th century Europe and Russia; the Kibbutz Movement, which was the communal way of life that was the basis for the earliest Jewish settlements in Israel; and the continuing threats to the national security posed by the ongoing conflicts in the Middle East, which contributed to a strong sense of common destiny and collective responsibility as evidenced by nearly universal requirements for military service.[91] Drory and Vigoda-Gadot also noted that successive generations in Israel, beginning with the first immigrants at the turn of the 20th century, long before Israel became an independent state, had stressed putting collective interests above individual needs and adopted a long-term perspective that emphasized dedicating their efforts to improving the circumstances for future generations.

Collectivism was the dominant element of Israel societal culture over the first 25 years of independence and was proactively promoted and supported by the central government's

---

[89] A. Antal, M. Dierkes and L. Marz, "Organizational Learning in Transformation Societies", Journal of General Management, 25(1) (1999), 17.
[90] Id.
[91] A. Drory and E. Vigoda-Gadot, "Organizational Politics and Human Resource Management: A Typology and the Israeli Experience", Human Resource Management Review, 20 (2010), 194, 199-200.

regulatory policies and the national education system. However, Drory and Vigoda-Gadot, among others, have argued that Israel has gone through significant economic, industrial and cultural transformations since the mid-1970s and that "Israeli society has gone from being ascetic, collectivistic, closed, and relatively homogeneous, to being more materialistic, individualistic, open, and pluralistic".[92] The consequences of this transition in the workplace have been profound and workers have been abandoning the traditional view that work was an obligation to their families and a contribution to their society in favor of seeing their careers as a path to individual self-satisfaction and achievement of personal goals.[93] Employees, and their managers, have been abandoning their mindsets of long-term organizational commitment and adopting short-term orientations that include pursuit of immediate gratification. Drory and Vigoda-Gadot suggested several reasons for the transformation of societal and organizational culture in Israel including a shift towards an open market economy, marked by a decline in the influence of the Histadrut, the country's long-time central labor organization and implementation of structural reforms to enhance competition, bust up monopolies and cartels and privatize state-owned enterprises; the decline of the socialist ideology, which was accompanied by excessive state intervention in the economy; and the rise of the high-tech industry in Israel, which Drory and Vigoda-Gadot argued had a significant impact on changing cultural values in the workplace toward short-termism and individualism and eroded the sense of mutual commitment between employer and employee that had existed during the early decades of the country's existence.

Tolkowsky noted that due to the small size of their home market emerging companies in Israel need to quickly seek out attractive foreign markets for their technologies and products and, as a result, tend to build an appreciate for globalization into their corporate cultures from the very beginning.[94] This is evident in a number of areas including recruiting personnel who speak different languages, come from varying cultural backgrounds and who have experience working abroad and thus have developed cultural sensitivity. In addition, realizing that company personnel will be dispersed all around the world in order to get closer to larger primary markets, such as the US and Europe, the founders of Israeli companies emphasize communication and establish mechanisms for people to stay in touch, including travel between the home country and target foreign markets, and make sure that inter-company communications are understandable to everyone by requiring that they be made in a single primary language, such as English, even if specific communicants can exchange information more easily using another language common to both of them.

§1:7 Strategic planning

---

[92] Id. at 199 (citing A. Sagie and J. Weisberg, "The Transformation in Human Resource Management in Israel", International Journal of Manpower, 22 (2001), 226).

[93] Id. at 199 (citing D. Elizur and A. Sagie, "Facets of Personal Values: A Structural Analysis of Life and Work Values", Applied Psychology: An International Review, 48 (1999), 73; and I. Harpaz, "The Transformation of Work Values in Israel", Monthly Labor Review, 122 (1999), 46 (arguing that Israeli workers became more individualistic and materialistic in the 1990s and less collectively oriented)).

[94] The discussion in this paragraph is adapted from G. Tolkowsky, Globalization of Technology Ventures: Lessons from Israel, Knowledge@Wharton (August 17, 2009).

Harpaz and Meshoulam commented that, in general, formal strategic business planning, particularly appreciating and analyzing the relevant external environment, remains an evolving art and science in Israel and that, in particular, there is a "lack of realization on the part of management as to the contribution of HR to organizational strategy" in Israel.[95] This leads senior executives of Israeli firms to recruit leaders for the human resources function that have little training or experience in strategic planning and to refrain from imposing requirements on the human resources area similar to other core strategic functions, such as establishing clear objectives supported by plans and budgets that can be monitored and audited to ensure accountability.

§1:8 Governance

As a condition to its decision as to whether to invite Israel to join the Organization for Economic Co-operation and Development ("OECD"), the OECD requested that its Corporate Governance Committee examine Israel's position with respect to core corporate governance features.[96] One of the key findings in the report prepared and delivered by the Committee was that "an overriding corporate governance concern for Israel is the protection of minority shareholders and other stakeholders", a situation that has arisen due to the fact that "the corporate landscape is dominated by a small number of corporate groups controlled by families and individuals through cascading ownerships, pyramidal structures and cross-holdings". As a result, there is a greater risk of "abusive related party transactions and self-dealing"; however, the report noted that recent changes in the statutory governance framework have attempted to resolve these issues through the use of stringent approval procedures at the board and shareholder levels. The report recommended that the autonomy of the Israeli securities regulator be enhanced, that auditing procedures for listed companies be improved and that an efforts to implement specialized courts to hear commercial cases should be accelerated.

Maman invested that factors that were likely to influence whether a director who already had a set on the board of directors of a large Israeli company would be invited to sit on additional boards during a period that ran from 1974 through 1988 and found strong support for the hypothesis that a combination of the structure of the national economy and the human and social capital of individual directors determines whether a director will be asked to join additional boards.[97] Specifically, Maman found that the availability of additional board memberships for a director depended on position of his or her organization within the overall structure of the Israeli economy as well as the director's position within his or her organization, the director's affiliation with political organizations and the director's personal social networks. Maman looked at the backgrounds of Israeli directors who had been successful in accumulating multiple

[95] I. Harpaz and J. Meshoulam, "The Meaning of Work, Employment Relations and Strategic Human Resources Management in Israel", Human Resource Management Review, 20(3) (September 2010), 212, 221.

[96] Organization for Economic Co-operation and Development, Corporate Governance in Israel (Paris: OECD, 2011). Israel was invited to join the OECD in May 2010 and became a member of the OECD in September 2010.

[97] D. Maman, "Who Accumulates Directorships of Big Business Firms in Israel?: Organizational Structure, Social Capital and Human Capital", Human Relations, 53(5) (May 2000), 603.

directorships and found that the directors who were invited to sit on more boards had served for longer periods on boards of directors, held high positions on these boards, had better professional credentials, were appointed from inside rather than outside the company, had large social networks, held central positions on interlocking networks, and already sat on boards of companies that were part of large business groups.

The influence of venture capitalists from the US and Europe on their Israeli portfolio companies is often seen when decisions are being made regarding the role of the Israeli founders and whether or not a professional manager should be brought in to take on CEO responsibilities. Many of the issues that must be considered are not that different than those that arise when the investors and founders are all from one country, such as the US; however, cultural differences must be taken into account when, for example, US venture capitalists are insisting on bringing in experienced professional managers to oversee all of the operations of an Israeli firm (i.e., a CEO) and/or an important function (e.g., a CFO to make sure that "costs are being controlled"). Tolkowsky, who has studied the experiences of a number of Israeli technology startups, reported that attempts by US venture capitalists to appoint a US CEO without placing one of the Israeli founders on a "shoulder-to-shoulder" basis with the US appointee (even if reporting to the CEO) had generally not been successful.[98] Another attempt by US investors to impose on the management structure of an Israeli company was demanding that the company recruit a US-based CFO and this also was counterproductive since it deprived the CEO, who was Israeli, with close and easy access to a senior management team member with whom the CEO needed to have a trusting and intimate relationship.

§1:9 Finance

Israel's first venture capital fund, Athena Venture Partners, was established in 1985 by Major-General Dan Tolkowsky, who was a past Chief of Staff of the Israeli Air Force, Dr. Gideon Tolkowsky and Frederick R. Adler, a leader of the US venture capital industry who believed that successful Israeli emerging companies could eventually become listed on US stock exchanges.[99] Additional venture capital funds were launched in the early 1990s, with investors from the US and other foreign countries such as South Africa[100], and the government lent support to the efforts to establish an Israeli venture capital industry by offering both tax incentives to foreign investors and promises of doubling any investment made by a venture capital fund with capital provided by the government.[101] The results of these efforts were spectacular as annual venture capital outlays during the 1990s exploded from $58 million at the beginning of the decade to $3.3 billion by 2000. During that same period the number of companies that were launched using funds provided by the Israeli venture capital industry skyrocketed from

[98] G. Tolkowsky, Globalization of Technology Ventures: Lessons from Israel, Knowledge@Wharton (August 17, 2009).
[99] See Company Overview of Athena Venture Partners, Bloomberg Businessweek (the fund was dissolved in 1997) and Ahavat-Israel, Israeli Venture Capital.
[100] Globes: Israel's Business Arena, Gideon Tolkowsky, Veritas.
[101] G. Gilder, Silicon Israel—How Market Capitalism Saved the Jewish State, City Journal 19(3) (Summer 2009).

100 to 800 and Israel rose to second only to the US worldwide with respect to invested private equity capital as a percentage of GDP.

As of the end of the 2000s Israel was at the top of the global charts with respect to R&D investment as a percentage of GDP.[102] In addition, hundreds of international funds, including many from the US, have actively invested in Israel through in-house specialists in their home offices even though they themselves did not have a local presence in Israel. Syndication of venture capital deals among groups of investors including both Israeli venture capital firms and foreign investors is commonplace in Israel.

A group of Israeli experts ranked the area of financial support in Israel for new businesses higher than all of the other countries included in the global survey of entrepreneurship conducted by the Global Entrepreneurship Monitor (GEM) in 2007.[103] Specific findings included confirmation that Israel had enough available equity funding for new businesses, credit financing for setting up new and growing businesses, available financing from private individuals (other than the founders) and venture capitalists who provide financial support to new and growing businesses and available financing by means of initial public offerings on the stock exchange for new and growing businesses. There were, however, concerns was with respect to the availability of governmental subsidies for the advancement of new businesses and this issue seems to be more problematic for conventional businesses since high-tech businesses appear to be well supported by governmental programs.[104] The experts also noted that many new businesses with no ongoing, recognized track records often had difficulties in obtaining quality services from Israeli banks and it was recommended that the government consider implementing loan guarantee programs for new businesses that might increase the credit that such businesses receive from private lenders.[105] A similar concern has been raised about the dearth of financial resources to support pre-seed funding in areas of keen interest such as biotechnology and medicine and commentators have recommended that the government provide funding currently unavailable from venture capitalists and other sources for proof of the industrial and commercial feasibility of projects, an activity that generally requires about $1 - $1.5 million in funding before a more elaborate business model can be launched.[106]

PwC Israel promulgated an extensive report on the recent development of the Israeli venture capital community.[107] The report noted that Israeli companies raised about $11.1 billion from 2001-2010 and that venture capital investment per capita in Israel was the

[102] OECD Factbook 2010: Economic, Environmental and Social Statistics
[103] E. Menipaz, Y. Avrahami and M. Lerner, Global Entrepreneurship Monitor (GEM): Israel National Entrepreneurship Report 2007 (Beersheba, Israel: Ben-Gurion University of the Negev, 2009).
[104] Id. at 54-55.
[105] Id. at 65 and 80.
[106] Id. at 82.
[107] PwC Israel, The PwC Israel MoneyTree Report: Venture Capital in the First Decade of the Third Millennium (PwC Israel, 2011). For further discussion of the development and evolution of the Israeli venture capital sector, see G. Avnimelech and M. Teubal, Venture Capital Policy in Israel: A Comparative Analysis and Lessons for Other Countries.

highest in the world throughout that entire period[108]; however, the report also highlighted a number of challenges that confront the continuing impact of venture capital on the growth of the technology sector in Israel in the future, including the following[109]:

- The relative labor and cost advantages that Israel may have enjoyed over other destinations for technology investment, notably China and India, is deteriorating—the report noted that the cost of Israeli engineers is two to three times the cost of similar skilled workers in China and India.
- The small size of the Israeli domestic market is putting it at a disadvantage in relation to much larger countries such as China and India when competing for foreign direct investment capital.
- During the period running from 2001-2010 the level of venture capital investments in Israel was declining and there was also a significant decrease in the number of active venture capitalists—the report noted that while 44 venture capitalists made 90% of the investments at the beginning of the decade by the end of the decade 20 venture capitalists combined for 90% of the activity at that time. The future looks even more challenging as Israeli institutional investors appear to prefer Eastern European real estate investments as opposed to domestic technology companies.
- The activity and presence of "angel investors" in Israel lags behind the US although there are some proposed changes in the law to provide tax incentives for early stage investments in start-up companies and encourage institutional investors to support research and development companies.

The report noted that it can be expected that Israeli venture capital funds will soon be looking to raise additional capital since many of them have relatively mature portfolios of current investments that will need to be liquidated in the next two to three years as required under the terms of agreements with investors that provided the capital to the funds in the first place. The ability of those funds to attract new capital will depend on how the issues noted above play out as well as other factors such as the success of governmental and university efforts to build an Israeli presence in key technology areas such as "green tech" and biotechnology. The Israeli venture capital community also shares the concerns of others described in this chapter regarding neglect of education and training in science, engineering and entrepreneurship in Israel and the impact this might have on the perceived human capital advantage that Israel has enjoyed for so long.

The IVC Research Center, which collects and disseminates information on Israel's high technology industries, reported that in 2009 Israeli venture capital funds provided only 37% of the investment in the country's technology-focused companies and that the bulk of the capital came from investors in the US and Europe.[110] Abrar reported that Israel has been able to attract over twice as much venture capital investment per capita than in the

[108] By way of comparison, US high technology companies supported by venture capitalists raised about $247 billion from 2001 through 2010. PwC Israel, The PwC Israel MoneyTree Report: Venture Capital in the First Decade of the Third Millennium (PwC Israel, 2011), 4.
[109] PwC Israel, The PwC Israel MoneyTree Report: Venture Capital in the First Decade of the Third Millennium (PwC Israel, 2011), 2-3.
[110] Israel Venture Capital Research Center (March 2010).

US and 30 times more than all the members of the EU combined, and that as of 2013 there were about 70 active venture capital funds in Israel, of which 14 were international.[111] According to figures compiled by the IVC Research Center around 575 Israeli companies raised an aggregate of $1.92 billion in 2012, down 10% from 2011 but up from 52% in 2010. While the bulk of foreign venture capital flowing into Israel has traditionally come from the US, the projected expansion of the Israeli technology cluster is expected to require funding from other parts of the world. While the UK and other European countries have shown great interest in collaboration with Israeli technology firms, the Israeli have appeared to show a preference for teaming up with investors in the Far East that can presumably provide access to the large and growing Asia-Pacific markets.[112]

While the GEM researchers reported that angel investment activity in Israel as of 2007 was at its lowest point since the GEM project had begun in 2007, the GEM 2010 report disclosed, somewhat surprisingly in light of the difficult economic conditions during the late 2000s, that Israeli angel investors had actually steadily increased their funding activities each year since 2008 to the point where angel investment reached its highest level in 2010.[113] The GEM researchers suggested that this trend may have reflected a tendency among angel investors to proactively search for new untapped growth opportunities during periods of crisis and noted that the increase in angel investment was particularly welcome given that entrepreneurs were encountering difficulties in securing capital from alternative sources such as banks. The researchers found that about 71% of the Israeli angel investors invested in a friend, neighbor or a close family member and that there was a noticeably higher interest in backing Arab and Russian immigrant minorities, particularly women in those groups, within the angel community. The greater support for the Arab and Russian immigrants was noteworthy because they had traditionally suffered due to lack of access to institutional funding in Israel. The GEM Israel 2012 Report confirmed that angel investment activity in the country had continued to grow in 2011 and 2012.[114]

In its 2011 report on Israel venture capital during the first decade of the new century, PwC Israel referred to the decade as a "rollercoaster ride" that ended with Israel firmly established as a "high-tech nation" with the highest venture capital investment per capita in the world and a reputation for broad availability well-seasoned technical capabilities.[115] PwC Israel sounded cautionary notes, however, in several important areas. For example, the costs associated with Israeli engineers were significantly higher than the costs of their counterparts in China or India and the sheer size of the Chinese and Indian domestic markets made them more attractive destinations for global investment capital than Israel. PwC confirmed that findings of others that there had been an overall

---

[111] P. Abrar, What Makes Israel with Just Eight Million People, An Innovation Hub? (November 8, 2013).
[112] B. Rooney, "Israel's Big Tech Sector Looks to Produce Bigger Companies", The Wall Street Journal (October 23, 2013).
[113] E. Menipaz, Y. Avrahami, Y. Avrahami and M. Lerner, GEM 2010 Israel National Entrepreneurship Report (2011).
[114] E. Menipaz, Y. Avrahami and M. Lerner, GEM Israel 2012 National Summary (2013).
[115] The discussion in this paragraph is adapted from PwC Israel, Venture Capital in the First Decade of the Third Millennium: The PwC Israel MoneyTree Report 2001-2010 (2011).

decrease in venture capital investment in Israel from 2001 to 2010 and a significant decrease in the number of active venture capitalists in Israel (i.e., (the number of venture capitalists responsible for 90% of the investments declined from 44 at the beginning of the decade to just 20 by 2010). PwC noted that Israeli institutional investors showed little interest in providing financial support for technology businesses in Israel and tended to prefer real estate investment in Eastern Europe. While there has been an uptick in Israeli angel investing it remains modest by comparison to US angels. PwC observed that many Israeli venture capitalists have mature portfolios and that there will be a significant volume of exits throughout the 2010s. PwC argued that the results of these investments would be critical in setting investment levels, and the ability of Israeli venture capitalists to raise new capital, in the years to come. PwC also joined others in commenting on the inability of Israeli entrepreneurs to build "mega companies" and observed that "it is somewhat frustrating to realize that the Israeli entrepreneur is not aiming to be a global leader".[116]

Figures compiled by the IVC Research Center for 2009 revealed that 24% of the venture capital investment in Israel flowed to life sciences companies, making it the most popular industry sector for venture capitalists, and that investors were also quite interested in software (23% of total investment), communications (20% of total investment) and Internet companies (13% of total investment).[117] Life sciences and software remained the two most popular sectors in 2013, 23% and 21% respectively of total investment for that year, and analysts predicted that the software sector would continue to grow as Israeli entrepreneurs concentrated their efforts on cybersecurity, cloud infrastructure and big data and recruited growing numbers of former military systems professionals entering the Israeli civil market.[118]

The IVC Research Center reported that venture capital investment in Israel reached a ten year high in 2013 with 662 companies raising $2.3 billion.119 Of that amount, which was second only to the $3.1 billion raised in 2000, three-quarters went to fund 395 startup companies. Israeli venture capitalists contributed $546 million, continuing a year-over-year increase in the amount of funding; however, this represented an all-time low of just 24% of overall venture capital financing in Israel. The survey data indicated that the average round of financing was $3.47 million, which was up from $3.37 million in 2012 and just under the ten-year average of $3.56 million. Sela of KPMG Somekh Chaikin noted that foreign investors continued their traditional emphasis on later stage investments but were also broadening the scope of the industries in which they were participating. He commented that the relatively low percentage of total investment from Israeli venture capitalists and institutional investors would ultimately deprive Israel of the returns and tax payments from successful emerging companies and urged Israeli regulators to identify and remove barriers to greater participation by local investors.

---

[116] PwC Israel, Venture Capital in the First Decade of the Third Millennium: The PwC Israel MoneyTree Report 2001-2010 (2011).
[117] IVC Research Center, IVC High-Tech Yearbook 2009.
[118] Globes: Israel's Business Arena, High-Tech Investment Hits 10 Year High (January 22, 2014).
[119] The discussion in this paragraph is adapted from Globes: Israel's Business Arena, High-Tech Investment Hits 10 Year High (January 22, 2014).

Israel has a long history of supporting "incubators" for technology-oriented businesses and, in fact, the government, through its Office of the Chief Scientist, launched six incubators in the early 1990s to support seed and early stage development of entrepreneurial technology companies that could leverage the skills and experiences of the large number of scientists, engineers and physicians that had just arrived at that time from the former Soviet Union.120 By the middle of 2000s there were over incubators operating throughout Israel and their primary focus remained science-related R&D. These incubators have been successful in raising substantial amounts of private investment and continue to receipt large amounts of financial support from the Office of the Chief Scientist.

§1:10 Human resources

Reward systems in Israeli companies must take into account the motivational priorities and preferences around the country and the high cost of living in Israel, which is continuously escalating, means that salary is an important factor and source of motivation.[121] Israelis also value recognition and distinguishing themselves from colleagues at similar levels in the organizational hierarchy and having opportunities to spend time with their families. While fairness is considered to be an important characteristic for effective management in the Israeli workplace, it is understood that directors and managers will often turn to friends or family when filling positions and will give great weight to recommendations provided by close friends or family members on behalf of prospective employees. However, privileges and apparent favoritism of this type do not extend to salary and promotion decisions in the workplace and those actions are typically made based on merit.

Israelis as a whole are highly educated and eligible to take advantage of an extensive educational system during their younger years and seven university-level institutions, a number of regional colleges, and an Open University program. Major changes in the Israeli economic environment, notably the growth and development of high technology and globalization, have led to what Harpaz and Meshoulam have described as "harsher competition, management of uncertainty, and pressure for flexibility and fast reaction".[122] This has led to a substantial increase in the interest of Israelis, particularly younger workers, in pursuing formal business education training and there has been a dramatic expansion of the number of business administration programs and improvements in the quality of those programs.[123] Another issue that Israel has been grappling with is what Harpaz and Meshoulam referred to as "a demand for talent" due to the rapid growth of the high technology industry that "constitutes a major challenge for human resources".[124]

---

[120] Israel's High-Tech Boom, The Jewish Policy Center, Summer 2008

[121] Foreign Affairs and International Trade Canada: Centre for Intercultural Learning, Cultural Information: Israel.

[122] I. Harpaz and J. Meshoulam, "The Meaning of Work, Employment Relations and Strategic Human Resources Management in Israel", Human Resource Management Review, 20(3) (September 2010), 212, 218.

[123] Id.

[124] Id.

The old human resources model for Israeli industry, limited mobility, protected employment and highly unionized, has largely crumbled and several sources have emerged for fulfilling the human resources requirements in the technology sector—the release of employees from government-owned businesses, many in the Israeli aircraft industry, to join high technology firms; high number of immigrants from the former Soviet Union, including a number of educated, trained and experienced technicians, engineers and scientists; highly educated military personnel with technical training and experience; and Israelis who had left the country for education and other reasons and decided to return in order to participate in the development of the technology sector.[125]

A group of Israeli experts polled during the global survey of entrepreneurship conducted by the Global Entrepreneurship Monitor (GEM) in 2007 was highly critical of the quality of education and training in Israel and noted that education and training was "in such a decline as to threaten the development of Israel as a country, and does not properly support the training of Israel's future entrepreneurs".[126] There criticisms were directed at both the general level of the educational system in Israel and to training programs they believed to be necessary to develop successful entrepreneurs. [127] Similar concerns about the "neglect" of "people, education, excellence and entrepreneurship" in Israel over the last decade were included in a comprehensive report on Israeli venture capital.[128]

Harpaz and Meshoulam have observed that the Israeli employment relations system is "based on the European corporatist model", which they explain as being characterized by "regulating the labor market, as well as wider social aspects, based on tri-partite collective bargaining among employers, employees, and the state."[129] For decades the Histadrut federation of labor was a dominant force with respect to economic and social policies in Israel in two very different, yet overlapping ways—it used its influence to negotiate collective bargaining arrangements for Israeli workers that covered most of the employers in Israel while, at the same time, its position as the second largest employer in Israel, next to the State, caused it to temper the demands of workers with respect to pay and benefits due to the impact on the bottom line of the enterprises it controlled. The State, led by coalitions constructed by the socialist democratic Labor Party through the mid-1970s, benevolently oversaw the activities of the Histadrut in return for ongoing political support and adopted protectionist policies that insulated Israeli firms from foreign competition and influence. The end result was a relatively stable Israeli labor market in which the State exercised a substantial degree of control as long as the Labor Party remained unquestionably in power.[130]

---

[125] Id. at 218-219.
[126] E. . Menipaz, Y. Avrahami and M. Lerner, Global Entrepreneurship Monitor (GEM): Israel National Entrepreneurship Report 2007 (Beersheba, Israel: Ben-Gurion University of the Negev, 2009), 61.
[127] Id.
[128] PwC Israel, The PwC Israel MoneyTree Report: Venture Capital in the First Decade of the Third Millennium (PwC Israel, 2011), 3.
[129] I. Harpaz and J. Meshoulam, "The Meaning of Work, Employment Relations and Strategic Human Resources Management in Israel", Human Resource Management Review, 20(3) (September 2010), 212, 216-217.
[130] Id.

The political landscape in Israel changed dramatically in 1977 when the Likud bloc broke the stranglehold that the Labor Party had on control of the State and, while the Labor Party remains a force in Israel, the last thirty years have seen what Harpaz and Meshoulam called "a new era in Israeli employment relations".[131] For example, the Histadrut's position in the Israeli economy and politics has been substantially diminished due to its divestiture of most of its non-union function and activities and, even more importantly, the drastic drop in the union participation rate in Israel from 80% to just 25% of the labor force as of 2007.[132] In addition, the tight relationship between Histadrut and the government maintained during the long period of Labor Party control has disappeared as the leaders of the Likud bloc came to perceive the union as a major potential impediment to their political agenda and the government has frequently attempted to undermine, if not completely eliminate, the Histradut's main bargaining chip—the right to strike. Harpaz and Meshoulam note that today "[t]he Histadrut is still a major force in wage and employment issues, predominantly in the public sector"; however, the relationship between Histradrut and the employers' associations has decreased substantially collective bargaining in general has shifted toward decentralization and negotiation of a national framework agreement for employer-employee relations, which was the practice before 1977, has been replaced by talks and agrees that are specific to industry sectors, occupational groups and local plants.[133]

Harpaz and Meshoulam have argued that there has been a substantial and dramatic transformation of the human resources profession and activities in Israel over the last several decades that has been driven by a variety of forces and events.[134] Until 1967, Israel's economic environment was largely one of isolation and Israel was a closed and small local market with export activities limited to agricultural products and controlled arms sales. The manufacturing sector was relatively primitive and foreign multinationals were reluctant to invest in, or do any type of business with, Israel due to threats of boycotts from Arab nations. After 1967, however, the Israel economy has undergone what Harpaz and Meshoulam described as "major changes, such as growing immigration, exposure to the global market, introduction of new, sophisticated, high technology products and changes in the political climate".[135] Other new influences on the Israeli economy and workplace have come from increased interest in investment in research and development by foreign companies, a phenomenon that has been accompanied by the introduction of new methods of management into Israel firms including the replacement of the traditional "personnel management" philosophy with principles associated with "human resources management". Supporting this transformation has been changes in the Israel infrastructure—computer networks, telephone systems and transportation—needed

---

[131] Id. at 216.
[132] Id. at (citing I. Harpaz, "The State of Trade Unionism in Israel", in C. Phelan (Ed.), Trade Union Revitalization: Trends and Prospects in 34 Countries (Oxford: Peter Lang, 2007), 445). Harpaz and Meshoulam noted that the main reason for the decline in union membership was the statutory prohibition on the ability of labor unions to offer health care services, which was passed in 1995.
[133] I. Harpaz and J. Meshoulam, "The Meaning of Work, Employment Relations and Strategic Human Resources Management in Israel", Human Resource Management Review, 20(3) (September 2010), 212, 217.
[134] Id. at 217-218.
[135] Id.

to facilitate commercial growth and entry into the global economy and improvements in training focusing on technical, managerial and professional skills.[136]

Research conducted by Harpaz and Meshoulam has led them to conclude that Israeli workers have become more individualistic and materialistic since the 1980s, and less collectively oriented, and they have observed that this trend will definitely have an impact on employment relations and organizational policies in the Israeli workplace in the years to come.[137] They noted that Israeli workers appear to be much more focused on "themselves" and this is illustrated by increased emphasis on pursuit of materialistic values, self-benefit, career progress, status and prestige. They caution that when workers place personal satisfaction over the needs of society or their organizations the level of commitment and loyalty to specific organizations is bound to deteriorate and the interpersonal and social relations systems within organizations will also be impacted by a heightened sense of competitiveness. On the other hand, Harpaz and Meshoulam note that these changes, driven by "economic and technological developments that are part of global processes . . . [and] not unique to Israel", can have positive consequences for both individual workers and society as a whole. For example, individuals will be motivated to invest more resources in their training, thus increasing the overall level of human capital; and workers will be open to performance-based incentives and assuming more responsibility for their actions in the workplace Israel managers must be mindful of these changes and seek to accommodate them while guarding against adverse effects such as the loss of teamwork and collaboration that were the hallmarks of the long-standing collectivist tradition in Israel.

One the most important developments in the Israeli economy has been the gradual, yet steady, increase in the influence of the high technology sector and this transition has had a significant impact on the path of human resources management in Israel. Harpaz and Meshoulam note that while the Histradrut, Israel's centralized and dominant labor union, was in its ascendency most of the labor issues relevant to workers all around the country—compensation and benefits management—were resolved through collective bargaining led by union representatives and the role of human resources departments was typically limited to "labor relations and administrative management".[138] In fact, many of the people who assumed management positions in the human resources department had a long background in union affairs. Mobility for employees was limited and the main focus from a human resource perspective for most firms was "productivity". As a result,

---

[136] Id. at 218.

[137] Id. at 213-216. The researchers have continuously analyzed the "meaning of work" in Israel by collecting data from representative samples of the Israeli labor force in 1981, 1993 and 2006 using the same questionnaire each time. Over time they notice a significant increase in the percentage of respondents who chose "if you get money for doing it" as the primary definition of work accompanied by a steep decline in the percentage of respondents who defined work as "something done in order to contribute to society (the State)". Other notable trends included the emergence of "pay received for work" as the most important work goal along with the rise of "job security" in the ranking of work goals. Harpaz and Meshoulam commented that this was likely a reflection of occupational insecurity in the Israeli job market—high unemployment rates in 1990s and early 2000s—and the erosion of the power of Israeli trade unions accompanied by a shift from a "tenure establishment" with collective bargaining agreements to individual contracts. Id.

[138] Id. at 219.

those training programs that did exist were generally aimed at increasing productivity and not on “utilization of employees' potential and growth”. Harpaz and Meshoulam succinctly summed up the situation as follows: “An overall view of an individual as a resource that needs to be developed and utilized, and, perhaps, assists a company in acquiring competitive advantage, was not part of management's planning.”[139]

The emergence of the high technology sector, accompanied by the simultaneous erosion of popularity and influence of the Histradrut, led to what Harpaz and Meshoulam described as a “rethinking of management-labor relations for the organization, in general, and Human Resources, in particular.”[140] High technology firms, subject to global competition for markets, technology and resources of all types and exposed to foreign influences through direct investment arrangements, actively rejected unionization in favor direct individual negotiation and introduced a number of new human resources measures perceived to be necessary to foster the required spirit of innovation and attract and retain experienced, educated and qualified technical workers. Examples mentioned by Harpaz and Meshoulam included tying compensation to performance, eliminating and replacing seniority-systems for setting compensation and promotions, establishing aggressive mobility programs and implementing professional methods for screening and selecting people and orienting new employees. Human resources issues also contributed to changes in organizational culture and structure, including “empowerment, flexibility, collaboration, better use of employees' collective wisdom, and less formal structures”.[141]

Harpaz and Meshoulam have catalogued a number of changes precipitated by the increased globalization of the Israeli economy and the corresponding challenges for Israeli human resources professionals. Among some the key issues that they found were the following[142]:

- Israeli managers in general have had to learn and apply a “more sophisticated approach to management”, including leadership development, establishing processes for distance management, expatriate management and recognition of cultural diversity in the workplace and among key stakeholders such as customers and supply chain partners. Other specific skills mentioned by Harpaz and Meshoulam that had to be developed by human resource professionals included a deeper appreciation of corporate culture, conflict management and change management.
- Human resource managers in Israel need to learn how to cope with, and thrive in, the new environment of global competition, which means focusing on the strategies that will enable them to recruit well from a highly educated and innovative workforce and retain those workers by providing them with challenging work, autonomy and competitive compensation schemes tied to performance.
- Human resources managers must facilitate effective communication and collaboration with business partners from different cultural backgrounds and establish procedures for managing workers located in distant locations as Israeli companies become

---

[139] Id.
[140] Id.
[141] Id.
[142] Id. at 220-221.

multinationals and establish operations in foreign countries all around the world. As described by Harpaz and Meshoulam, there is an increasing need among expanding Israeli firms "to deal with cross-cultural relationships and physical distances among workers, often accompanied by different languages, values, and beliefs." They also point out that this is especially challenging, yet important, for Israel given that it is far from major markets and especially dependent on its ability to penetrate foreign markets in order to survive since its domestic market is so small.

- New human resource management issues require a fresh approach to the human resources profession in Israel and mechanisms need to be created to allow for sharing of data and knowledge so that human resources professionals can provide the necessary support to their firms. Harpaz and Meshoulam suggested that Israel needs to develop strong professional associations for human resources specialists and an accreditation process to set qualifications and standards.
- The last challenge mentioned by Harpaz and Meshoulam was for human resource professionals to find ways to "enrich the boy of knowledge", particular in fields most relevant to international activities. Among the areas mentioned were leadership development; staffing, particularly recruitment, selection and management of employees who will be working in foreign subsidiaries; and management of so-called "technical issues", such as compensation and benefits, labor relations and labor laws.

Sagie and Weisberg studied what they characterized as the transformation of human resource management in Israel due to the transition of the Israeli economy from the Socialist approach to the "free market" approach accompanied by the emergence of a high technology sector to stand and operate alongside the traditional low technology industries that have long been in place in Israel.[143] They argued that these changes, which begin in the early 1980s and have continued steadily over the last three decades, have forced human resource managers in Israel to "assume new roles, adopt different work values, and apply appropriate strategies".[144] Sagie and Weisberg compared and contrasted the human resources strategies used in the "low-tech" and "high-tech" sectors and found that while "HR managers in the low-tech industry still adhere to traditional values and strategies, including a reliance on trade unions and an emphasis on job security and the employees' years of work experience and seniority as key criteria for promotion", human resource managers working with firms in the high technology sector had "adopted new values and developed new strategies, including human resource management programs, employee empowerment, higher salaries and better benefits, while placing an emphasis on employees' talents and qualifications".[145] Following the same theme, Dressler found that human resources departments in the low-tech sector emphasized "traditional" activities such as deploying conventional methods for recruiting and testing new employees and administering collective agreements, and Sagie and Weisberg found that human resources departments in the high-tech sector were engaged in activities that could be characterized as more "strategic" and which included design and implementation of sophisticated human resources management programs such as

[143] A. Sagie and J. Weisberg, "The Transformation in Human Resource Management in Israel", International Journal of Manpower, 22(2) (2001), 226.
[144] Id. (Abstract).
[145] Id.

"top quality management" and "management by objectives".[146] Key differences between the employer-employee relationship in the low-tech and high-tech sectors can be summarized as follows[147]:

Dimension	Low-Tech Sector	High-Tech Sector
Contract Basis	Collective agreements	Personal contracts
Unionization	Frequent	Infrequent
HRM Managerial Practices	Infrequent	Frequent
International Contacts	Infrequent	Frequent
Employee Empowerment	Infrequent	Frequent
Employee Initiatives	Infrequent	Frequent
Identification with Firm	Lower	Higher
Employee Qualifications	Less Important	More Important
Years of Work Experience	More Important	Less Important
Seniority	More Important	Less Important
Length of Workday	Shorter	Longer
Job Security	Higher	Lower
Compensation	Lower	Higher

Human resources management in Israel has been profoundly influenced by significant shifts in societal culture and workplace values that have been occurring over the last three decades and these changes have arguably been most clearly manifested among the country's technology-focused emerging companies. Drory and Vigoda-Gadot discussed the impact that the rise of the Israeli high-tech sector had on societal culture and noted that "[t]he start-up industry is by nature short-term oriented, emphasizing cutting-edge and rapidly changing technologies, short product life cycles and high employee turnover" and that shortages of highly skilled employees force companies to offer excessive salaries and benefits in order to attract the scientists, engineers and other professionals that they need in order to be successful in intensively competitive and turbulent markets.[148] As a result, the organizational culture of many new technology companies in Israel is based on immediate gratification and short-term psychological contracts between employers and employees. According to Drory and Vigoda-Gadot, Israeli workers "now place greater emphasis than they did in the past on values such as employee empowerment, participation in decision-making, job enrichment, and career development".[149] These changes have paralleled the rapid and precipitous decline in influence of Israel's trade unions, which has forced employees to adopt free market competition norms based on

[146] J. Lund, J. Manion, I. Teller, T. Tran and A. Zak, Israel: Country Briefing (2004) (citing G. Dressler, Human Resource Management (Upper Saddle River, NJ: Prentice-Hall, 2000) and A. Sagie and J. Weisberg, "The Transformation in Human Resource Management in Israel", International Journal of Manpower, 22(2) (2001), 226).
[147] A. Sagie and J. Weisberg, "The Transformation in Human Resource Management in Israel", International Journal of Manpower, 22(2) (2001), 226 (cited in J. Lund, J. Manion, I. Teller, T. Tran and A. Zak, Israel: Country Briefing (2004)).
[148] A. Drory and E. Vigoda-Gadot, "Organizational Politics and Human Resource Management: A Typology and the Israeli Experience", Human Resource Management Review, 20 (2010), 194, 200.
[149] Id. at 199.

individual employment contracts entered into without protection from the unions. Harpaz similarly concluded that instrumental achievements gradually but clearly began to outweigh contributions to society through the 1980s in terms of importance of work goals among Israeli workers, a telling indication of the shift away from collectivism toward individualism and materialism among those workers.[150]

§1:11 Globalization

Grotsky has described the technology-focused firms that have developed in and around Tel Aviv as prime examples of emerging companies that have had to incorporate globalization into their strategies from the very beginning of their existence due to the very small size of the local market—Grotsky explained that "Israel's population of seven million (as of 2010) is mostly regarded by technology entrepreneurs as a wonderful pilot market, but little more"—and the country's political and economic isolation that has made it difficult to export products by land.[151] Other factors propelling early globalization among Israel's emerging companies include the need to heavily rely on foreign suppliers and the strong influence of foreign investors that provide a high proportion of the capital for the Israeli companies and thus look for those companies to achieve success in those foreign markets and provide them with assistance in getting established in those markets.

Tolkowsky studied globalization among Israeli technology companies, including 63 companies with shares traded on the NASDAQ exchange in the US as of August 2009, and concluded that many of them had generated their first sales outside of Israel, typically looking to the US for their initial customers, and that success in the primary global markets for their technologies needed to be achieved before they began to sell in earnest back in their own home market.[152] Tolkowsky also noted that Israeli technology companies had often turned to institutional investors from the US, particularly venture capitalists, for funding and that these investors had provided valuable connections to prospective customers in the US that eventually served as references for the companies and provided the validation for their technologies that was needed in order for the companies to push aggressively into an ever widening scope of foreign markets and secure strategic alliances with global partners. Other strategies used by Israeli companies to increase their chances of success with respect to globalization have included closely monitoring the activities of their local agents in primary global markets to develop their own knowledge base regarding customer requirements, paying specific attention to facilitating communication between the R&D team operating in the home country and sales personnel on the front lines in foreign markets and making sure that internationalization is built into the corporate culture from the very beginning and that recruiting strategies emphasize development of a diverse workforce with experience in foreign market, the ability to communicate in multiple language and the cultural sensitivity needed to understand how primary global markets work.

---

[150] I. Harpaz, "The Transformation of Work Values in Israel", Monthly Labor Review, 122 (1999), 46.
[151] D. Grotsky, Globalized Clustering, MIT Entrepreneurship Review (April 28, 2010).
[152] G. Tolkowsky, Globalization of Technology Ventures: Lessons from Israel, Knowledge@Wharton (August 17, 2009).

Chapter 2
France

References and Resources

Additional information on studies and commentaries relating to various aspects of leadership and management styles and practices in France can be found in the Sustainable Entrepreneur's Libraries of Resources prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org) covering Leadership, Management, Organizational Design, Organizational Culture, Strategic Planning, Governance, Corporate Social Responsibility, Finance, Human Resources, Product Development, Technology Management, Globalization and Managing Growth and Change.

§2:1 Introduction

Mazzarol and Reboud reported on studies that showed that innovation in France during the early 2000s lagged behind other countries in the European Union in both the manufacturing and services sectors and noted that both the French government and the French Managers Association announced plans to invest in the promotion of innovation and improvement of the country's national innovation system by helping the actors of the innovation process, creating a business environment that fostered innovation, building a local dynamic in French territories and defining new axes for innovation policy.[153]

Vela explained that the French government attempted to increase innovation through a series of steps designed to improve the "public infrastructure for start-ups", with a particular focus on trying to "rationalize the system of government research centers in order to create better communication among communities of researchers, entrepreneurs, and industrialists working with similar technologies".[154] The overriding objective was to bring researchers and practitioners into closer contact so that they could easily share ideas and technology could be quickly and efficiently transferred from laboratories to private firms with the means and motivation to develop commercial applications. One strategy that was used was launching "innovation networks" in specific sectors that linked researchers with industry and facilitated efficient distribution of government research funds to those projects that had the highest likelihood of creating commercial value. Another strategy was the extensive financial support for the creation and expansion of a number of technology parks that were designed to serve as the sites for collaboration between government laboratories and private firms pursuing major technological projects in various fields such as aerospace and semiconductors. Technology parks were also valuable tools in the government's efforts to promote regional development around France and were intended to become "clusters" of firms providing all of the resources and technical skills needed for successful innovation.[155]

---

[153] T. Mazzarol and S. Reboud, Innovation Management in Small Firms: A Comparison of French and Australian Companies (2007), 6.
[154] J. Vela, Radical Innovation in the Transatlantic Economy: Is a Silicon Valley Possible in Europe? (2009), 35-36.
[155] For discussion of France's technology park initiative, see P. Goodman, "Tech Development: A French Resolution", Washington Post (December 9, 2005).

Sophia Antipolis, a large science park located on the French Riviera between Nice and Cannes, has been a showcase cluster program of the French government that has become the home for hundreds of new companies with thousands of engineers, technicians, researchers and students. By design, Sophia Antipolis has focused on a few select target sectors and industries such as information technology (electronics and advanced telecommunications), medical and chemical sciences, and natural sciences, and the area has become for researcher centers established by several important multinational technology companies including Siemens and Lucent Technologies.[156]

The French government and local investors have taken several steps to improve and expand the available pool of engineers and entrepreneurs in and around Paris by providing training to supplement deficiencies in the French education system and easing the requirements that must be satisfied in order for talented foreign developers to come to France to work in startup companies.[157]

According to Vela, France's efforts during the 1990s and 2000s to improve the environment for innovation have been quite successful and by 2008 French companies enjoyed much improved access to venture capital and other sources of private equity investment, the overall legal and tax environment for innovation in France had become more favorable, and France was recognized for the overall quality of the infrastructure that it was able to provide to innovative companies.[158]

§2:2 Entrepreneurship

Vela discussed the role of institutional frameworks and public policy in promoting technological, "radical" innovation in coordinated market economies ("CMEs"), with a particular focus on France, to explore whether or not it was possible for high-technology start-ups following the iconic "Silicon Valley" model of technological innovation to be successful in Europe.[159] Vela noted that various scholars had observed that French corporate governance had been transformed in the 1990s and 2000s to facilitate research and innovation for companies and universities, increase access of technological start-ups to venture capital and other sources of private equity and introduce characteristics of market-orientation into French financial markets in order to assist companies involved in research and product development activities in radical innovation fields.

Vela identified and described several challenges that needed to be overcome, or at least carefully managed, in order to promote and support private sector innovation activities in France.[160] One issue was France's tradition of state-initiated innovation that had led to a concentration of technical expertise within state-run sectors and a general belief among

[156] D. Dearlove, "The Cluster Effect: Can Europe Clone Silicon Valley?", Strategy+Business (July 1, 2001).
[157] G. Williams, "Europe's Hottest Startup Capitals: Paris", Wired (October 1, 2013).
[158] J. Vela, Radical Innovation in the Transatlantic Economy: Is a Silicon Valley Possible in Europe? (2009), 36-37.
[159] Id.
[160] Id. at 24.

the public that innovation was not possible without governmental initiative and intervention. The prior role of the state in innovation raised doubts as to whether it was feasible to cultivate technology-intensive innovation in small private companies. Another issue was the skepticism among French politicians regarding the ability, and wisdom, of the country to accept the economic institutions associated with "American-style capitalism". For example, it was understand that changes would need to be made in the French legal and regulatory system to make it easier to launch and terminate companies in order to accommodate entrepreneurs looking to take on high-risk projects and many worried that this would lead to "a rapid cycle of company formation and failure that would challenge France's traditional emphasis on job security". Some also worried that allowing incentives such as stock options to recruit scientists and engineers to high-risk ventures would widen income and wealth inequalities in French society.

Ultimately, while debate regarding promotion of a French Silicon Valley touched on whether it would be compatible with long-held tenants of France's "social contract", policymakers concluded that it was necessary to move forward to address France's poor performance in the New Economy sectors, a loss of skilled workers to the US and other countries that offered better opportunities to pursue technology-based growth-oriented entrepreneurship and high domestic unemployment. Vela explained that "the co-habitation government of President Jacques Chirac and Premier Lionel Jospin put in place a vast array of new policies designed to promote new information and communications technologies in France . . . [that] . . . included substantial reform of the regulatory framework within which small startups operated to encourage entrepreneurship, the growth of private resources available for R&D and initial funding of technology start-ups, a stronger public sector commitment to research, the decreasing of the administrative burden imposed on small companies, the improvement of government-business communication through technology, and the creation of public infrastructure to support key technological fields".[161] Specific initiatives included reforming the regulation of stock options to provide incentives for technically skilled workers to pursue entrepreneurship rather than the relatively "safe" jobs in government laboratories or the country's larger companies; creating tax incentives for private investment in technological innovation; establishing government-funded venture capital programs; encouraging business R&D and capital expenditures; lowering administrative barriers to new firm creation and operation, including reduction in reporting requirements; establishing a new flexible type of company to facilitate the form of governance required by technological start-ups; and investing in a public infrastructure for innovation, including research networks and technology parks.

§2:3 Leadership

In their well-known 1991 article in the *Harvard Business Review*, Barsoux and Lawrence argued that business leadership in France was "a 'state of mind' rather than an "interpersonally demanding exercise" and that French executives were distinguished by

[161] Id. at 26-27.

their cleverness rather than by their skills.[162] Twenty years later, an article in *The Economist* also reported that many executives in France believed that they owed their high positions to their intelligence and cunning and saw themselves as needing to be clever, meaning "they must be able to grasp complex issues, analyze problems, manipulate ideas and evaluate solutions".[163] *The Economist* noted, however, that while problem-solving was their goal, and the technical background of many French executives gave them the confidence that they could solve any problem, French executives often struggled to detect problems that should be addressed since they "[did] not share the Anglo-Saxon view of management as an interpersonally demanding exercise where plans have to be sold upward and downward" and often were uninterested in doing many of the things that needed to be done in order to spot problems in the first place such as "talking to people, asking the right questions, listening to answers and sometimes improvising".[164]

Barsoux and Lawrence were among the first of many to observe that French executives were not simply born into their roles, but instead were molded through an elaborate educational path that included attendance at exclusive schools and eventually led to induction into a "managerial elite" that enjoyed high social privileges.[165] According to *The Economist*, once someone survived the academic grind and landed a position with a top firm in France, it was expected that he or she would remain with that company for life and career development was "inegalitarian" and more "a case of sponsorship than ability", with an emphasis placed on "acculturation" and "being schooled in the thought, ways and folklore of the company."[166] Little in the way of formal management training was offered to leaders of French companies as they progressed and matured, which was not surprising given that it was believed that their legitimacy was tied to characteristics that could not easily be taught in a formal fashion, such as "cleverness".[167]

Interestingly, it is generally acknowledged that the French education system that has long produced its business leaders, which is decidedly tilted toward the sciences, is relatively meritocratic and rewards those that score the best on tests and get the best grades with opportunities for coveted positions with the government and in the private sector; however, this type of meritocracy has been criticized for its failure to spill over into the workplace, at least among large French companies, where the ties forged among executives during their school days become the basis for filling important positions

---

[162] J. Barsoux and P. Lawrence, "The Making of a French Manager", Harvard Business Review, 69(4) (July – August 1991), 58. See also France: Management Styles (February 1, 2011) ("Intellectualism is something desired in French managers; one's ability to master complex concepts and provide and understand detailed analysis is respected far greater than one's interpersonal skills and ability to motivate staff and build effective teams.").
[163] "Schumpeter: The French Way of Work", The Economist (November 19, 2011).
[164] Id. See also G. Taleghani, D. Salmani and A. Taatian, "Survey of Leadership Styles in Different Cultures", Iranian Journal of Management Studies, 3(3) (2010), 91, 102-103 ("French managers see their work as an intellectual challenge which needs mental and intellectual power. Attitude of these managers is based on wisdom, wit and sagacity rather than practice.").
[165] J. Barsoux and P. Lawrence, "The Making of a French Manager", Harvard Business Review, 69(4) (July – August 1991), 58.
[166] "Schumpeter: The French Way of Work", The Economist (November 19, 2011) (as described in Management Culture Blog, French Management (November 25, 2011)).
[167] Id.

within a firm and internal promotion opportunities are limited for those who do not have the elite educational background, even if they have performed well in discharging their duties for the firm. This lack of upward mobility has become a source of significant dissatisfaction among middle managers in France, many of whom have become increasingly disengaged from their companies, and those who have been able to advance in larger companies typically come from areas such as finance or strategy rather than from manufacturing.

The seeming lack of engagement found among French business leaders is accompanied, and reinforced, by hierarchical organizational structures, centralized decision making and a wariness of distributing information to, and sharing authority with, managers and employees at lower levels of the organizational pyramid. Reports of discontent among French middle managers and employees are a sign that perhaps this traditional leadership style is no longer effective. France joined Italy, Portugal, Spain, Switzerland (French-Speaking) and Israel as a member of the Latin Europe cluster of countries identified and analyzed in the Global Leadership and Organizational Behavior Effectiveness ("GLOBE") research program, and the researchers found that the most effective leadership attributes among the countries in that cluster were charismatic visionary, team-oriented and participative leadership and the least valued and admired leadership attributes were autonomous and self-protective leadership.[168] As for France specifically, Jesuino explained: "A comparison of the cluster country means shows that France presents the lowest scores on all attributes except participative leadership where along with French Switzerland, the score is higher than in other countries within the cluster. To French managers, being a humane leader actually impedes effective leadership. Charismatic leadership, while seen in somewhat positive light, is not viewed as highly as in the other countries. Effective French organizational leaders are first and foremost participative, and to a lesser extent team oriented."[169]

The results from the GLOBE survey strongly suggest that French leaders need to make some significant changes in their leadership styles and practices in order to improve their effectiveness. The participative style of leadership suggested by the GLOBE researchers is based on a willingness to encourage and accept input from others during the process of making and implementing decisions and emphasizes delegation and equality. Team-orientation demands that leaders make the effort to instill pride, loyalty and collaboration among organizational members as a means for propelling everyone in the firm to work together to achieve a clearly understood common purpose or goals. It will be difficult for French leaders to overcome their reluctance to delegate authority, as well as their belief that they can rely on their own "cleverness" to make decisions rather than tapping into the skills and experiences of others inside the organization. However, many French business leaders are losing touch with the heart and soul of their organizations, relying only on lengthy, formal written reports crammed with numbers to understand what is going on in day-to-day operations, and it is imperative that they involve their employees in developing realistic goals and performance measures, share information and delegate authority, develop talent and establish paths for upward advancement that are not

[168] J. Jesuino, "Latin Europe Cluster: From South to North", Journal of World Business, 37 (2002), 81, 88.
[169] Id.

dependent on where someone went to school, create appropriate rewards and proactively engage in creating and supporting teamwork by focusing on process as well as tasks.[170]

§2:4 Management

In an article published in 2011, *The Economist* reported on the results of a poll taken among French employees that showed that 40% of them actively disliked their managers and that France ranked last among ten surveyed countries with respect to workers' opinions of management.[171] The article also mentioned that French employees were dissatisfied, relative to workers in other parts of the world, with the extent to which their managers worked with them to achieve their goals and that French companies were unique in that both middle management and lower level employees admitted to being largely disengaged from their companies. As for the widely-held belief among outsiders that French workers are lazy, the article refuted the claim by citing a report on national competitiveness compiled by the World Economic Forum that concluded that French employees found great satisfaction in their work and had a much stronger work ethic than their counterparts in the Netherlands, the UK and the US, a finding that led *The Economist* to suggest that it is the managers, and not the workers, that are the problem in getting the most out of France's human resources.

According to *The Economist*, "critical" decisions for French companies were made centrally and senior managers insisted on being kept informed about all activities within the organization "so they can check other people's decisions".[172] Taleghani et al. also observed that French managers had a need to be kept aware of everything that was going on in the areas which they oversaw and demanded regular reports on all activities so they could control the decisions made by subordinates.[173] Biatas set out to analyze cross-cultural differences in internal relations between managers and their subordinates, specifically horizontal communication and employees' participation, that might be influenced by the level of power distance using data collected from French and Swedish enterprises operating in Poland.[174] Biatas found that among the French enterprises, management was conducted in a very hierarchical framework which attributed a significant amount of competence to senior managers at the top of the pyramid and limited the role of lower level managers to providing advice and information to senior managers and not attempting to manage, or make decisions, on their own. Biatas observed that top managers in French enterprises were considered to be very special persons with high authority, a view attributable more to the position held by the person as opposed to specific competencies of that person, and their direct contacts with lower level employees were limited and rare; however, relationships between supervisors and their subordinates were typically quite strong, albeit formal rather than friendly, and

[170] S. Zoglio, The Participative Leader (1995).
[171] "Schumpeter: The French Way of Work", The Economist (November 19, 2011).
[172] Id.
[173] G. Taleghani, D. Salmani and A. Taatian, "Survey of Leadership Styles in Different Cultures", Iranian Journal of Management Studies, 3(3) (2010), 91, 102-103.
[174] S. Biatas, "Power Distance as a Determinant of Relations between Managers and Employees in the Enterprises with Foreign Capital", Journal of Intercultural Management, 1(2) (November 2009), 105.

supervisors generally showed an interest in taking care of their subordinates and in their private lives.

In the "pyramid of people", the implicit model of organizational structure for French companies suggested by Hofstede and Steven, the general manager of a French firm was expected to demonstrate personal authority through his or her intelligence, knowledge, experience, values and leadership skills.[175] In other words, consistent with the views of well-known French management theorist Henri Fayol, French senior managers provided coordination at the top, rarely delegated authority and expected that those below them in the hierarchy would carry out their activities in accordance with formal rules as principles of coordination. Other studies have shown that French managers view organizations as political and authority-based and value role formalization and the use of hierarchical relationships.[176] Reporting relationships within French firms must remain simple and clean and, in fact, researchers have reported that French workers strongly resist reporting to more than one supervisor, thereby undermining the prospective use of matrix structures in France.[177]

After studying France, Britain and Germany, Horovitz observed that the control systems used by managers in France were "more like those used in Germany than the British".[178] French managers tended to rely on controls as policing and surveillance tools rather than as guiding instruments and were particularly focused on production controls. As was the case in Germany, French managers relied on centralized staff for administration of their control systems; however, Horovitz opined that "the typical French practice [was] less systematic and less sophisticated than the usual German system".[179] French companies tended to be organized by functions and generally had large central staff and extensive centralized services, similar to the situation among German firms. Many decisions were left to be made at the highest levels of the organizational hierarchy; however, rather than relying on committee management the tendency was for the chief executive to be given sole and final control over decisions required to resolve problems that might arise among the various functions.[180] As opposed to their counterparts in Britain and Germany, French firms studied by Horovitz placed less emphasis on long-range planning activities and those firms that were active in this area typically created plans that were "often more like 3-year financial forecasting rather than being decisions today which [could] change the normal course of actions for tomorrow".[181]

---

[175] G. Hofstede, "Motivation, Leadership and Organization: Do American Theories Apply Abroad", Organization Dynamics, 9 (1980), 42, 60. Hofstede was referring to the work of O. Stevens at INSTEAD.
[176] A. Laurent, "The Cultural Diversity of Western Conceptions of Management", in International Studies of Management and Organization (Vol. XIII, Nos. 1-2, Cross-Cultural Management II: Empirical Studies) (Spring-Summer 1983) 75.
[177] A. Laurent, "Matrix Organizations in Latin Cultures, A Note on the Use of Comparative Research Data in Management Education", International Studies of Management and Organization, X(4) (1981), 101.
[178] J. Horovitz, "Management Control in France, Great Britain and Germany", in T. Weinshall, Societal Culture and Management (1993), 445, 446.
[179] Id. at 447.
[180] Id. at 448.
[181] Id. at 450.

Hofstede wrote extensively on how cross-cultural differences might impact attempts to transfer management theories popular in one country to another country with a different societal culture profile. For example, he commented on how well one might expect Drucker's well-known "management by objectives" ("MBO") would be accepted in cultural environments other than the US.[182] Attempts to implement MBO in France were a failure in Hofstede's view because France is a large power distance society in which managers are uncomfortable with decentralizing authority and subordinates do not expect managers to delegate authority and, in fact, prefer that managers provide direction through a hierarchical structure that reduces stress and anxiety by its very predictability.[183] In order for MBO to be successful, there must be a good deal of dialogue between organizational units, and managers and subordinates, regarding objectives, targets and standards and this assumes that subordinates have sufficient independence and confidence to engage in meaningful negotiations with persons higher in the organizational hierarchy (i.e., small or medium power distance). Initially it was thought that MBO might be a means for implementing what some believed was a long overdue democratization of management processes within French organizations; however, the cultural aversion to participatory management practices, shared by persons at all levels of the organizational hierarchy, proved too difficult to overcome in most instances and Hofstede reported that the French version of MBO—referred to as DPPO (Direction Participative par Objectifs)—had largely been discredited by the time that he first published his survey results at the end of the 1970s.[184]

Schramm-Nielsen compared the impact of cultural influences on decision making processes used by French and Danish managers and found that the French demonstrated a preference for logical and systematic analysis of problems that included "looking for as many alternatives as possible and trying to evaluate them before coming to a conclusion and then go back to see whether there might be more possibilities to be considered, other ways of doing things".[185] At the same time, however, French managers also often combined their analytical rationalism with emotion and impulse that often appeared when it was time to defend a decision that had already been made, prompting Schramm-Nielsen to refer to the French model of decision making as being that of "emotional man". Consistent with conclusions reached by other researchers, Schramm-Nielsen also found

[182] MBO is based on the principle that individual efforts must be put together to achieve a common goal known to, and accepted by, everyone in the organization and required the completion of the following steps: organizational objectives must be defined at the very top of the hierarchy, such as the board level; management roles and activities should be analyzed so that duties and responsibilities relating to achievement of the objectives can be properly allocated among the individual managers; performance standards should be established; managers and subordinates should agree upon and define specific objectives for the activities of the subordinates; the targets set for each subordinate should be aligned with the larger objectives of the organization; and management information systems should be created to monitor performance and the actual relationship of individual achievement to organizational objectives. G. Hofstede, "Motivation, Leadership and Organization: Do American Theories Apply Abroad", Organization Dynamics, 9 (1980), 42, 58–59. See also P. Drucker, The Practice of Management (1954).

[183] G. Hofstede, "Motivation, Leadership and Organization: Do American Theories Apply Abroad", Organization Dynamics, 9 (1980), 42, 58–59.

[184] Id.

[185] J. Schramm-Nielsen, "Cultural Dimensions of Decision Making: Denmark and France Compared", Journal of Managerial Psychology, 16(6) (2001), 404, 412.

indications that French managers disapproved of delegating too much decision making authority to employees and relied on extensive control mechanisms and procedures to oversee the activities of those reporting to them.[186] Schramm-Nielsen noted that while French managers invested a significant amount of time and effort into analyzing potential strategies for resolving problems, they typically had little interest in operation and implementation and looked to lower-level employees to sort out the details while the managers watched using tight control procedures.

The Economist argued that the centralized decision making preferred among French companies, coupled with their emphasis on intellectual leadership, "serves research and strategy formulation well but is perhaps less well suited to flexible responses in fast paced industries where planning from the top can be cumbersome".[187] The preference for logical and systematic analysis of problems uncovered by Schramm-Nielsen can also be an impediment to making and implementing decisions at the rapid pace required in order for French companies to compete effectively in technology-focused business sectors. In order to be successful going forward, it would appear that substantial changes are need in the way that French companies are managed starting with collapsing the tall organizational hierarchies and a realization that the traditional reliance on general management skills possessed by an elite group of highly educated leaders needs to give way to management processes that include and value input from specialists who can creatively address and solve thorny technical issues. In addition, a different balance must be struck between deliberation and action, which means that French managers must be prepared to cope with a bit more uncertainty that they are comfortable with in order to accelerate innovation.

While it may be a somewhat unfair and overly simplistic to attribute the long-standing practices of French management to the well-known principals of management developed by French industrialist Henri Fayol, Rodrigues suggested that Fayol's framework could be used as a framework for identifying some of the changes that companies, including those in France, should be making in order to increase the effectiveness of their management practices.[188] Recommendations from Rodrigues that were particular relevant to the situation in France included a shift from management empowerment, in the form of centralized authority, to greater reliance on employee participation and empowerment; substitution of informal, peer-pressure controls for the formalized command and control procedures that have long been a staple of French enterprises; and involvement of workers in the conception and implementation of new ideas. Rodrigues realized, however, that changes in management styles and procedures could only be made if organizational cultures and values were changed and suggested that implementation of employee training and development programs was the best way to accelerate this process. Moreover, by emphasizing training and development, French companies could ensure that workers throughout the organization were better prepared to take on more

[186] Id. at 419.
[187] **"**Schumpeter: The French Way of Work", The Economist (November 19, 2011).
[188] C. Rodrigues, "Fayol's 14 Principles of Management Then and Now: A Framework for Managing Today's Organizations Effectively", Management Decision, 39(10) (2001), 880. Fayol's principles of management are explained in H. Fayol, General and Industrial Management (1949).

responsibility and adapt quickly to increasingly rapid changes in the business environment in which their companies were operating.

Schramm-Nielsen analyzed and compared the cultural dimensions of decision-making processes in French and Danish companies and found that there were clear differences between the two classes of companies with respect to the ways that decisions were arrived at in terms of how managers emphasized different phases of the decision making process.[189] Schramm-Nielsen suggested that in order to adequately characterize actual behavior in French companies it was necessary to supplement classical theories of decision making (i.e., "economic man", "administrative man" and "the science of muddling through") with a new model that the author referred to as "emotional man", who was someone who was impulsive and emotional in decision making, yet also creatively irrational as opposed to consciously rational.[190] Schramm-Nielsen explained that the French decision making style was "characterized by rationality on the one hand, inasmuch as there is a thorough search for alternatives, but also by emotion and impulse on the other hand".[191] Schramm-Nielsen presented quotes from both French and Danish managers that painted a picture of French managers obsessively analyzing problems over and over again, investing much more time in the process than the Danes. However, while the careful approach taken by the French suggests a "predilection for logical analysis", Schramm-Nielsen reported that respondents from both countries mentioned that "analytical rationalism was often coupled with emotion and impulse, the very opposite of cool, reasoned rationality".[192] Other observations from the respondents included an assessment that, in relation to the Danes, the French, "are more creative, but less able to stick to the subject and get the report done . . . and get things done" and far less comfortable with giving up control over implementation to lower level managers.[193]

§2:5 Organizational design

Hierarchy has been an important characteristic of French business and political life for a long time. In the early 1990s, Barsoux and Lawrence reported that French managers created tall organizational hierarchies and preferred quantitative expression and putting directions and communications into writing.[194] *The Economist* has also noted that organizational structures in France tended to be centralized, rigid, hierarchical, and based on respect for the authority of the intellectual senior executives at the top of pyramid and

[189] J. Schramm-Nielsen, "Cultural Dimensions of Decision Making: Denmark and France Compared", Journal of Managerial Psychology, 16(6) (2001), 404.
[190] Id. at 407. Schramm-Nielsen argued that Danish managers also followed a different new model, one that was described as "action man" and referred to a decision maker marked by pragmatic rationality based on experience and on induction from empirical findings. For discussion of the three classical theories of decision making referred to in the text, see J. March and H. Simon, Organizations (1958) ("economic man"); H. Simon, Administrative Behavior (1947) ("administrative man"); and C. Lindblom, "The Science of Muddling Through", Public Administration Review, 19 (1959), 79 ("the science of muddling through").
[191] J. Schramm-Nielsen, "Cultural Dimensions of Decision Making: Denmark and France Compared", Journal of Managerial Psychology, 16(6) (2001), 404, 420.
[192] Id. at 412.
[193] Id. at 412, 419.
[194] J. Barsoux and P. Lawrence, "The Making of a French Manager", Harvard Business Review, 69(4) (July – August 1991), 58.

that French managers rarely delegated authority downward or otherwise empowered lower level employees to make decisions.[195] Similarly, Taleghani et al. found that "French organizations have centralized structure and emphasize on hierarchy of will and respect for validity of authority", "[m]anagers of the organizations have full power of decisions making and control on the organization" and "[i]n France, participatory methods in decision making and aiming are not common".[196]

Other commentators have observed that French companies have traditionally embraced paternalistic, or "family" models of organizational structure and inter-company relationships and that senior managers in France prefer to use a directive, rather than collaborative, management style wherein decisions and overall directions come from the top and are disseminated downward into the organizational hierarchy for implementation by junior management.[197] The tall and rigid hierarchical structures found in many French companies have been attributed, at least in part, to the high aversion to risk in France and workers are tightly focused on avoiding trouble by making sure that they produce what is expected of them by their superiors. As a result, one finds among French companies an abundance of formal plans, methods and reports, which can be time-consuming to prepare and create a process that often undermine efficiency and the ability of the company and its workers to meet deadlines.[198] Information, in the form of the plans and reports referred to in the previous sentence, flows upward from subordinates to superiors in French companies; however, downward communication of information from superiors back down to subordinates regarding the reasons for their decisions is limited.

Hofstede described an unpublished work of Stevens describing the results of his survey of graduate business students from three different European countries—France, Germany and Great Britain—that included questions regarding their ideas about how to deal with issues in a case study that involved a conflict between the product development and sales departments at a hypothetical firm.[199] Stevens found that most of the students from France advised that resolution of the conflict required attention and intervention from the highest level of the organizational hierarchy (i.e., the president) and based on this feedback, as well as different responses from the students from the two other countries, proposed a preferred "implicit model" of organizational structure for French companies based on the high power distance and high uncertainty avoidance in the societal level culture of that country that resembled a pyramid with centralized responsibility and authority for making decisions and formalized rules of operation. This model came to be referred to as the "pyramid of people" featuring a general manager at the top of the organizational hierarchy and the remaining managers and workers at their appropriate places on successively lower levels of the hierarchical ladder.

---

[195] "Schumpeter: The French Way of Work", The Economist (November 19, 2011).
[196] G. Taleghani, D. Salmani and A. Taatian, "Survey of Leadership Styles in Different Cultures", Iranian Journal of Management Studies, 3(3) (2010), 91, 102-103.
[197] France: Management Styles (February 1, 2011).
[198] Id.
[199] G. Hofstede, "Motivation, Leadership and Organization: Do American Theories Apply Abroad", Organization Dynamics, 9 (1980), 42, 60. Hofstede was referring to the work of O. Stevens at INSTEAD.

Studies performed by Schneider and Barsoux appeared to confirm the Hofstede/Stevens conceptual model and they suggested that the "pyramid" structure, which Schneider and Barsoux actually referred to as the "Traditional Bureaucracy", was based on high formalization and hierarchy and had specific characteristics that included centralized decision making and coordination at the top of the hierarchy; less delegation; "cloisonne" highly specialized; strong role of staff; a value of analytic abilities; informal relationships; elitist (power and authority); and input controls.[200] Mintzberg developed a typology of "preferred configurations of organizations" that corresponded with the Hofstede/Stevens model and could also be fit into a matrix created using the uncertainty avoidance and power distance dimensions.[201] One of his structural types, referred to as the "machine (or full) bureaucracy", corresponded to the "pyramid" model and was suitable for high power distance/high uncertainty avoidance societies such as France and for firms that employed relatively unskilled works producing low complexity products. The key part of the organization for this structural type was the "techno structure", which included persons in staff roles, such as engineers, researchers and analysts, who supplied ideas for planning and controlling the technical core of the organization; and the preferred coordination mechanism was standardization of work processes (i.e., specifying the contents of the work). A final example of "implicit models of organization" that closely followed the principles of Stevens, Hofstede and Mintzberg and used all of the dimensions of societal culture included in the Hofstede framework was offered by the ITIM Culture and Management Consultancy, which suggested that French companies would rely on a "solar system model" that was based on hierarchy and impersonal bureaucracy and that was similar to the pyramid model yet with greater individualism.[202]

Referring to the results of a study of comparable factories in France and Germany conducted by Maurice et al., Pugh reported that those researchers had found that French firms tended to have a larger number of staff personnel employed in areas not directly related to production activities and that the number of levels in production hierarchy was greater among the French firms because those firms employed more mid-level managers.[203] Interestingly, Maurice et al. related these differences to the educational systems, and resulting career paths for managers, in France and Germany. They noted that top managers in France typically held higher degrees from "elite" institutions whose graduates were routinely slotted into upper management positions within French firms following graduation. The need to find jobs for these graduates led to expansion of the organizational hierarchies at French companies while not necessarily improving the overall quality of management. In contrast, German managers were usually promoted from within based on their professional expertise derived from the knowledge and skills

[200] S. Schneider and J.-L. Barsoux, Managing Across Cultures (2nd Ed.) (2002).
[201] The framework was initially presented and described in the early 1980s. See H. Mintzberg, Structures in Fives: Designing Effective Organizations (1983).
[202] For further discussion, see H. Wursten, Culture and Change Management, ITIM Culture and Management Consultancy.
[203] D. Pugh and the Open University Course Team, "Cultural Differences in Organizational Behavior" in T. Weinshall, Societal culture and management (New York: Walter de Gruyter, 1993), 125-133, 126 (citing M. Maurice, "For a Study of Societal Effect: Universality and Specificity in Organizational Research" in C. Lammers and D. Hickson (Eds.), Organizations Alike and Unlike (London: Routledge and Kegan Paul, 1979)).

learned while training as junior employees. The end result was the conclusion that "French firms [tended] to be run more bureaucratically, with orders and procedures set from above".[204]

In a study of French and Swedish enterprises operating in Poland conducted to identify and analyze cross-cultural differences in internal relations between managers and their subordinates that might be included by the level of power distance, Biatas found the French enterprises to be "very hierarchical", consistent with the high power distance found in French societal culture.[205] Inzerilli and Laurent, who conducted a comparative study of managerial views of organizational structure in France and the US, also found that French companies tended to create and follow strictly established hierarchies in which each subordinate had only one supervisor, a tradition and practice that explained why matrix organizational structures were not popular among French firms.[206] Biatas reported that only a small amount of information, such as information connected with production indicators, was transferred downward to employees in the French companies, and others have found internal communication in French firms to be quite formal and horizontal and that senior managers in those firms disliked passing information to, and empowering, subordinates and limited downward communications to directives that were to be carried out without question or debate.[207] Not surprisingly, the employees of the French enterprises that Biatas studied felt they had little influence over the way in which their companies were managed and few opportunities for meaningful participation in decision making.

Stevens and Hofstede argued that the implicit organizational model most typically found among French firms can be described as the "pyramid of people" featuring a general manager at the top of the organizational hierarchy and the remaining managers and workers at their appropriate places on successively lower levels of the hierarchical ladder. Consistent with the views of well-known French management theorist Henri Fayol, the general manager of a French firm was expected to demonstrate personal authority through his or her intelligence, knowledge, experience, values and leadership skills. In other words, the leader provided coordination at the top, rarely delegated authority and expected that those below him or her in the hierarchy would carry out their activities in accordance with formal rules as principles of coordination. Studies have shown that French managers view organizations as political and authority-based and value role formalization and the use of hierarchical relationships.[208] Reporting relationships within French firms must remain simple and clean and, in fact, researchers have reported that

[204] Id. at 126.
[205] S. Biatas, "Power Distance as a Determinant of Relations between Managers and Employees in the Enterprises with Foreign Capital", Journal of Intercultural Management, 1(2) (November 2009), 105.
[206] G. Inzerilli and A. Laurent, "Managerial Views of Organization Structure in France and USA", International Studies of Management and Organization, 11 (1983), 104.
[207] S. Biatas, "Power Distance as a Determinant of Relations between Managers and Employees in the Enterprises with Foreign Capital", Journal of Intercultural Management, 1(2) (November 2009), 108.
[208] A. Laurent, "The cultural diversity of Western conceptions of management" in International Studies of Management and Organization (Vol. XIII, Nos. 1-2, Cross-Cultural Management II: Empirical Studies (Spring-Summer 1983) 75-96.

French workers strongly resist reporting to more than one supervisor, thereby undermining the prospective use of matrix structures in France.[209]

After studying France, Britain and Germany, Horovitz observed that the control systems used by managers in France were "more like those used in Germany than the British".[210] French managers tended to rely on controls as policing and surveillance tools rather than as guiding instruments and were particularly focused on production controls. As was the case in Germany, French managers relied on centralized staff for administration of their control systems; however, Horovitz opined that "the typical French practice [was] less systematic and less sophisticated than the usual German system".[211] French companies tended to be organized by functions and generally had large central staff and extensive centralized services, similar to the situation among German firms. Many decisions were left to be made at the highest levels of the organizational hierarchy; however, rather than relying on committee management the tendency was for the chief executive to be given sole and final control over decisions required to resolve problems that might arise among the various functions.[212] As opposed to their counterparts in Britain and Germany, French firms studied by Horovitz placed less emphasis on long-range planning activities and those firms that were active in this area typically created plans that were "often more like 3-year financial forecasting rather than being decisions today which [could] change the normal course of actions for tomorrow".[213]

§2:6 Organizational culture

Trompenaars believed that "[o]rganizational culture is shaped not only by technologies and markets, but by the culture preferences of leaders and employees" and noted that local branches of international companies, while adopting the same logo and reporting procedures, are often "fundamentally different in the logic of their structure and the meanings they bring to shared activity" as a result of the influence of local culture.[214] Working with his colleague, they built their own "database of corporate culture" based on responses received from 42 countries to questionnaires that "deal[t] with general concepts of egalitarianism versus hierarchy, degrees of formality, different forms of conflict resolution, learning and so on" and asked respondents to "choose between four possible descriptions of their company" that corresponded to the four types of organizational cultures in the model suggested by Trompenaars.[215] According to Trompenaars, the results indicated that the highest scores for the family culture were found in France and Spain, but he also cautioned that other factors, such as the size of the organization, often played a significant role in the selection of organizational culture that overrode, or

[209] A. Laurent, "Matrix Organizations in Latin Cultures, A Note on the Use of Comparative Research Data in Management Education", International Studies of Management and Organization, X(4) (1981), 101-114.
[210] J. Horovitz, "Management Control in France, Great Britain and Germany" in T. Weinshall, Societal culture and management (New York: Walter de Gruyter, 1993), 445-454, 446.
[211] Id. at 447.
[212] Id. at 448.
[213] Id. at 450.
[214] F. Trompenaars and C. Hampden-Turner, Riding the Waves of Culture: Understanding Cultural Diversity in Global Business (2nd Ed) (1998), 161.
[215] Id. at 182.

certainly reduced, influences of from national culture and noted that in France there was a tendency among its larger companies to select the Eiffel Tower model.

The family type of organizational culture was "person-oriented" and associated with high scores for hierarchy and person-orientation.[216] Trompenaars described this culture as having "close face-to-face relationships", thus being personal, yet power-oriented with a hierarchical framework of authority that placed a leader at that top as a sort of "father" who had experience and authority that greatly exceeded his or her "children" (the other members of the organization) and who thus would be regarded as "a caring father who knows better than his subordinates what should be done and what is good for them". As daunting as this might appear, the expectation was that the power exerted by the leader was intimate and benign and that the atmosphere in which work was conducted by the organization "in many respects mimics the home". Significant characteristics of the family type include an emphasis on strong and pleasurable personal relationships among organizational members, moral and social pressures rather than financial or legal pressures, high context, strong influence of the "father" in all situations relating to work-related events, greater interest in intuitive than in rational knowledge, more concern with the development of people than with their deployment or utilization, avoidance of loss of face by prominent "family members" and low priority to efficiency (i.e., doing things right) but high priority to effectiveness (i.e., doing the right things).

Buckermann explored the influence of French cultural standards and dimensions on the corporate culture and management style of a large French multinational petroleum company and found evidence confirming results of previous studies that several "typical French cultural standards" could be identified in the kind of communication, hierarchical structure and procedures for work organization and decision making used by the company: "an implicit and indirect communication style, external and concentrated authority as a characteristic feature of power and influence paths, the human-oriented rationality in task management and the dissent orientation in decision-making processes".[217] Respondents from within the surveyed company described the firm's attitude as paternal, caring and not highly performance-oriented and indicated that there was a controlling mentality within the company coupled with a distinctive number orientation, characteristics that Buckermann attributed to the strong uncertainty avoidance in French societal culture. Other researchers have also argued that certain societal-level characteristics of French culture—individualism, risk avoidance and acceptance of high power distance—translated into a "typical" French organizational culture that was based on bureaucratic principles because, in the words of Kos, "bureaucracy is the ideal way to realize values and norms of the French national culture—it lowers the functional risks, the people actions are based on clear, objective

[216] The descriptions and quotes in this paragraph are taken from F. Trompenaars and C. Hampden-Turner, Riding the Waves of Culture: Understanding Cultural Diversity in Global Business (2nd Ed) (1998), 162-170.
[217] W.-A. Buckermann, Corporate Culture and Management Style of a French Multinational Petroleum Company.

regulations, it accepts power distance and places people in the hierarchy accordingly to their individual efforts and skills".[218]

§2:7 Strategic planning

In a cross-cultural comparative study of control practices that included British, German and French firms, Horovitz found that the French participants placed less emphasis than the companies from the other two countries on long-range planning activities and that those firms that were active in this area typically created plans that were "often more like 3-year financial forecasting rather than being decisions today which [could] change the normal course of actions for tomorrow".[219] In general, Horovitz found French managers to be skeptical and/or suspicious of long-range planning efforts, leading to either abandonment of the entire process of drastic reduction of the time frame to no more than two to three years out. The French firms invested a lower level of human resources in planning and generally did not create and use formal planning procedures and content requirements. As a result, what planning that did occur took place over a relatively short period—two months prior to the beginning of the year under analysis—and the output was usually more like an annual budget than a forecast. When forecasts were made they generally were completed after the budget had been finalized.

§2:8 Governance

The system of corporate governance typically seen in France, and among other "Latin countries" such as France, Italy, Spain and Belgium in Europe and Brazil and Argentina in South America, is notable for its high level of network orientation and the protective concentration of ownership among key stakeholders such as families, industrial groups and the state. The relationship among these stakeholders are strong and enduring, which leads to stability and a preference for long-term investment horizons that is well suited to specialization in industries that the state has selected for sponsorship in support. For example, aerospace, nuclear and high-tech trains are all examples of "prestige industries" that have been championed by the state in France and both France and Italy have achieved worldwide success and notoriety for their international luxury goods companies. Critics of the Latin model argue, however, that capital markets in those countries are weak and narrow since minority shareholders have little or no voice in the face of the tight relationships among the above-mentioned key stakeholders and there are few rules that force those in control to feel any accountability to outside shareholders.[220]

As is the case in the Germanic countries and in Japan, the prevailing concept of the firm in the Latin countries is "institutional"; however, the composition of the main stakeholder group is a bit different and includes financial holdings, the state and families. Ownership

---

[218] J. Kos, Cultural Differences and How They Influence the Organizational Culture (citing J. Cerdine and J. Peretti, "Trends and Emerging Values in Human Resources Management in France", International Journal of Manpower, 22(3) (2001), 216).
[219] J. Horovitz, "Management Control in France, Great Britain and Germany", in T. Weinshall, Societal Culture and Management (1993), 445, 450.
[220] Portions of the description in this section is adapted from F. Toonsi, "Cultures of Control: International Corporate Governance", QFinance.

concentration is high, stock and bond markets are relatively unimportant and there is a dearth of protections for minority investors and no market for corporate control. In general, there is a moderate relationship between compensation and performance and planning horizons tend to be long-term. The corporate governance structure typically used in France incorporates elements of both the US/UK ("Anglo-American") system and the German system through the ability of companies to choose between two types of governance structures.[221] The most common type is similar to the Anglo-American system and calls for a single-tiered board structure that sets policies for the company and elects a president who is like the CEO in the US and the UK but with more power. Directors in this structure are mostly outsiders drawn from shareholders, representatives of financial institutions who have business relationships with the company and, to a larger extent than in other countries, representatives of the government. The second type of governance structure is two-tiered, as is the case in Germany; however, employees in France to not have the right to represented on the supervisory board. It should be noted, however, that a unique feature of the French governance system is that regardless of whether a single- or two-tiered structure is selected workers' representatives do have the right to attend board meetings as observers for all companies have more than a specified minimum number of employees. When the two-tiered structure is used, the senior, or "surveillance", board appoints a small "directorate" of persons who will be responsible for management and that group taps one of its members to serve as president of the directorate.

Cunningham explained that the governance and finance system traditionally used in France was the "bank/labor model", which featured substantial investment intermediation and concentration of ownership and debt holdings that tended to reduce pressure for the development of actively functioning, deep and liquid capital markets.[222] Banks were the primary capital providers to French firms and when they acted as both shareholder and debt holder the tension that normally occurs between those two classes of stakeholders disappeared and there was little need to develop any systems of checks-and-balances or strengthen disclosure systems. Cunningham also pointed out that labor was centrally involved in French corporate governance and that the deep tradition of worker protection in France had, until recently, provided workers with job security and compensation arrangements that were consider fair and reasonable in relation to senior executives. According to Cunningham, all of this could be described as a "stakeholder model of corporate governance" in which the fiduciary duties of managers ran to all of the participants in the corporation including not only shareholders, but also to the debt holders and workers.

Cunningham went on to note, however, that the French model of corporate governance has been undergoing substantial changes over the last two decades due to the influence of

[221] The discussion in this section is based on F. Allen and D. Gale, Comparative Financial Systems: A Survey, 27-28. The article also appears as F. Allen and D. Gale, "Comparative Financial Systems: A Survey", in A. Boot, S. Bhattacharya and A. Thakor (Eds.), Credit, Intermediation and the Macroeconomy (2004), 699.
[222] L. Cunningham, Commonalities and Prescriptions in the Vertical Dimension of Global Corporate Governance (1999).

EC directives, privatization and globalization. For example, various EC directives have abolished, or substantially restricted, historical controls on foreign investment, thereby forcing France and other European countries to consider adopting regulations familiar to US investors to induce them to provide capital to European companies, and have also harmonized accounting rules and expanded financial disclosure requirements. Privatization in France has not only reduced the role of the state in directing the economy, but has also led to the introduction of technical governance reforms following the US model such as the creation of audit and compensation committees at the board level and greater transparency as a result of improvements in both the quantity and quality for financial and business information.

Goyer has also written about the transformation of corporate governance in France, noting at the outset that concepts such as "corporate governance" and "shareholder value" had initially been badly received in France as "generally been associated with lay-offs and short-term thinking that privileges the next quarter's financial results over the long-term health and social responsibility of the corporation".[223] Although contempt for US-style corporate governance, and inbound investment from foreign mutual and pension funds, could be found among all of the major stakeholders of the French economy—managers, state officials, trade unionists, and the general public, Gover argued that there had nonetheless been extensive changes to France's model of corporate governance that were most evident in three areas: a transition in the ownership structure of companies from concentrated cross-shareholdings in the hands of friendly fellow domestic companies to high levels of foreign ownership; an abandonment of corporate diversification strategies in favor of concentrating on a limited set of core competencies, a development that had led to dismantling of conglomerate structures that had previously provided employees of French companies with employment protection by serving as internal labor markets and as conduits for keeping poorly performing units afloat using subsidies from faster growing units within the same conglomerate; and adoption of managerial performance incentives, including an explosion of stock option packages for senior executives. In contrast to Cunningham, Gover argued that accounting standards among French companies had lagged behind other European countries with respect to increased transparency and that minority shareholders in France still had to work harder than their counterparts in other countries to overcome ownership ceilings and the unequal voting rights.

Gover suggested that the transformation of French corporate governance described above raised issues of both process and sustainability. On the process side, Gover noted that the decisions to adopt shareholder value institutions and practices, dismantle conglomerate structures and adopt performance-based incentives had often been made by the CEOs and other senior executives of large French companies without extensive consultation with other firms, the state or internal stakeholder groups. For example, Gover pointed out that conglomerate structures were often cast aside with providing employment guarantees or other concession to employees. As a result, many French workers found themselves living in a world with substantially reduced job security and pursuing career paths that were depended more and more on the financial and business performance of their

[223] M. Goyer, The Transformation of Corporate Governance in France (2003).

employers as opposed to a social contract. Gover also questioned the introduction of stock options, noting that many companies had limited their use to CEOs and top management and that these performance-based incentives had been deployed without greater financial transparency that would discourage those at the top of the hierarchy with options from engaging in transactions calculated to increase the short-term value of the company's stock, and thus the value of their options. In other words, Gover feared that the members of the management teams of French companies would act in their own interests rather than continuing to follow the traditional process of serving the interests of all stakeholders and mapping and pursuing sustainable long-term competitive strategies.

One of the most interesting reforms made by the French to promote innovation was the creation of a new, more flexible, type of company that facilitated that the use of a corporate governance framework that was better suited to financing risky high technology start-ups.[224] The previously existing models of corporate governance in France discussed above restricted the ability of shareholders to exert control over the managers of the enterprise and it was believed that this structure would not be conducive to attracting venture capital investment, since those investors are generally unwilling to put their capital at risk unless they can have a hand in making decisions regarding the strategic path of the company. In 1999, however, legislation was enacted that authorized formation of a new form of corporation that, although it could not issue shares publicly, offered several advantages to entrepreneurs looking to raise venture capital and attract skilled technical specialists to work on risky, innovative projects. For example, these corporations could establish their own rules for management and shareholders; issue different classes of stock with different voting rights, thereby providing investors with the opportunities to direct management of the firm; issue stock options; and operate without work councils, thereby streamlining the decision making processes and providing more flexibility to management.

§2:9 Finance

Securities regulation in France falls to the Autorite des Marches Financiers ("AMF"), which was established in 2003 under France's Financial Security Act of 1 August 2003.[225] The AMF is intended to be an independent public authority that is responsible for regulating and policing French financial markets in order to protect savings and investment. The AMF has statutory responsibility for safeguarding investment in financial products, ensuring that investors receive material information and maintaining orderly markets. While its primary responsibilities relate to securities regulation, the AMF also cooperates with other French authorities that have responsibility for overseeing banking, investment firms and credit institutions and insurance products. AMF responsibility extends to four general areas: regulation; approval of market participants and products ("authorizations") and corporate financing ("bid acceptability and filing reviews"); supervision and monitoring of markets and market participants; and

[224] J. Vela, Radical Innovation in the Transatlantic Economy: Is a Silicon Valley Possible in Europe? (2009), 34-35.
[225] Portions of the discussion of the Autorite des Marches Financiers in this section are adapted from material found at www.amf-france.org.

punishment of regulatory infringements. The jurisdictional scope of the AMF extends to financial disclosures and corporate financing; financial markets and their infrastructures; investment services providers, financial investment advisors and direct sellers; and collective investment schemes. The AMF has been given inspection and investigative powers including the authority to conduct on-site and off-site audits of licensed investment services firms, financial instrument markets, the securities settlement system, clearing houses and financial investment advisers and direct sellers. The AMF has authority to launch investigations pertaining to possible market abuses such as insider trading, price manipulation and release of false information.

Corporate financing is an important area of responsibility for the AMF and all listed firms are required to inform the public regularly regarding their business activities and results and about major transactions such as capital increases and rights issues, tender and exchange offers and takeovers and mergers. The AMF oversees the preparation and disclosure of financial and other business information regarding listed firms to ensure that such information is accurate, true, fair and timely and properly disseminated throughout the entire financial community. The AMF is responsible for reviewing documents to be issued by listed companies, such as simplified and full prospectuses and offer documents. In many cases completion of the AMF review is a condition for distribution of such documents since the AMF must issue an official "visa" in order for the documents to be distributed; however, in some cases firms are only required to file the documents with the AMF and they may be examined after distribution. Other AMF activities relating to disclosures include enforcement of rules mandating disclosure of price-sensitive information through news releases to the general public at the earliest possible time and ensuring the companies prepare, file and publish annual financial statements, semi-annual results and quarterly revenue data.

A number of strategies were deployed in order to increase the pool of available financing for risk investment in radical innovation.[226] For example, tax incentives for French households to invest in venture capital were adopted in the mid-1990s to tap into the country's high private savings rates. The country's commercial banks, which as always provided some level of funding for French innovation in the form of direct loans that were guaranteed by the government, were encourage to increase their investment in venture capital and sometimes formed and managed their own venture capital funds to become more directly involved in promising technology start-ups. Many of France's largest corporations also began taking equity stakes in small start-ups working in areas related to their core businesses and these initial activities often led to the corporations forming their own corporate venture capital funds. Finally, while the state was pushing for strong private sector support of radical innovation, it continued to invest in the promotion of high-tech sectors using funds received from the privatization of various government-owned enterprises such as France Télécom in 1998. In addition, steps were taken to encourage private sector investment in R&D, promote cooperation between universities and research institutes on the one hand and new innovative companies on the other and reduce the risks of entrepreneurship for scientists and engineers interested in pursuing new ideas. Among other things, legislation was adopted that removed prior

[226] Id. at 29-31.

restrictions on the ability of public researchers to take equity stakes in private companies and created a "company creation holiday" that would allow employees to take a leave of absence that could extend up to six years, including social security coverage, to work on launching a new business and also guaranteed they could return to the prior positions.

According to a reported published by Practical Law Company ("PLC"), 1,047 billion euros were investment in venture capital in 2010 and 948 billion euros were invested in 2011, with 2011 investments coming from around 50 venture capital funds and being distributed among 749 companies and 62% of the total amount invested coming from 21 of the 50 funds.[227] The angel investor community in France is quite small and the amount of venture capital dedicated to seed investments in 2010 was just 7.25% of the total investment while 21.6% went to "Series A" rounds and the remaining 71.15% went to later rounds. According to PLC, the most popular sector among venture capitalists in 2011 was e-commerce/Internet, followed by healthcare, software and clean tech. The average amount per investment in 2010 and 2011 varied between 1.2 and 1.4 million euros. Venture capital funds receive funding from institutional investors, French governmental agencies, public agencies of the EU, and individuals, and there has been an increase in the number of corporate venture capital funds over the last few years. French venture capital funds use a variety of regulated structures, with the choice varying based on whether fund investors come from the retail market or are sophisticated/institutional investors.[228] Funds generally have a term of eight to ten years, with extensions possible if certain conditions are satisfied and subject to a right of investors to demand redemption of their interest after ten years. Several different forms of tax incentives have been adopted to encourage venture capital investment and research and development tax incentives are available for the innovative companies seeking venture capital funding.

Venture capitalists typically make equity investments in French companies, usually in the form of a purchase of preferred shares. Rights of, and protections for, investors in France are similar to those in other industrialized countries. The investment agreement includes representations and warranties from the companies and the founders, and a breach of such representations and warranties can lead to personal liability for the founders. Preferred shares issued to venture capital investors generally have anti-dilution rights and liquidation preferences and increased participation by foreign investors in French venture capital investments has led to more common use of requirements that a majority of preferred shareholders must approve various decisions that had previously been left to the

[227] The summary description in this section of market conditions in France and the key terms and conditions of venture capital investment in that country is adapted from A. Baker, A. Tolila, K. Noel, O. Edwards and O. Couraud, Private Equity and Venture Capital: France, Practical Law Company Multi-Jurisdictional Guide (2012). Those authors noted that relevant figures and other information relating to venture capital in France could be found at various websites including www.chaussonfinance.com. www.clipperton.net, and www.go4venture.com.

[228] According to PLC, the terms of the legal relationship between fund investors and the managers of those funds are subject to regulation, but vary depending on whether the fund is retail or non-retail. Investors in a retail fund generally do not have flexibility to negotiate additional protections; however, investors in non-retail funds often negotiation special provisions relating to change of management, management and other fees, limitations on the ability of the managers to launch successor funds and composition and rights of advisory committees.

directors. Investors usually have preemptive rights with regard to new issuances of securities and approval of such new issuances must be obtained from the investors regardless of whether they purchase the securities. Boards of portfolio companies are generally kept small for the sake of efficiency; however, significant investors are typically given board seats and other investors may be given observation rights. It is customary to find both "tag-along" and "drag-along" rights in the investment documentation, and all shareholders, including investors, are subject to restrictions on their ability to transfer their shares.

Founders and employees of French companies receiving venture capital are commonly incentivized through options, restricted stock units and/or warrants, which must be issued in conformance to detailed regulations in order to qualify for favorable tax treatment. All of these options, shares and warrants are subject to vesting conditions, and PLC reported that the most common vesting formula called for a one-year cliff followed by quarterly vesting until all of the shares have become fully vested after four years; however, in some cases senior management may convince investors to agree that vesting will be tied to attainment of milestones that increase the value of the company for all of its shareholders. Founders' vested shares are subject to "claw-back" provisions that may extend for up to five years and will be triggered by their departure from the company due to resignation or dismissal for gross negligence. Restrictions on the founders' ability to sell their shares during their claw-back period are common and founders will also be subject to the drag-along rights mentioned above that will require them to sell their shares in a sale of the company transaction that has been arranged and approved by the investors.

French venture capitalists seek one of three primary types of exits from their investments: a sale of the company, an initial public offering ("IPO"), or a leveraged buyout. Investors generally are given "liquidity rights" that allow them to force an exit, including a liquidation, if the company has not completed an IPO or a trade sale by a specified date. While it is generally thought that venture capitalists add value to innovative companies in terms of increasing their survival time and chances of a successful exit via IPO or trade sale at an attractive valuation, a study by Pommet of 139 French companies that went public between 1996 and 2002 revealed that the survival rate of venture capital-backed companies was lower than for companies that had not received financial support from venture capitalists, leading Pommet to suggest that "[w]e need to encourage greater professionalism among French VC firms tin order to improve their selection, monitoring and value adding performance".[229]

§2:10 Human resources

Rojot provided a useful summary of the evolution of human resources management practices in France from the beginning of the 20th century to the early 1990s, but conceded that there had been little in the way to generalized surveys on the use of HRM practices and noted that it was difficult to create a national HRM profile for France due to the large number of small- and medium-sized enterprises that typically operated without

[229] S. Pommet, The Survival of Venture Capital Backed Companies: An Analysis of the French Case (July 2012).

much formalization of their human resources policies.[230] According to Rojot, the first appearance of HRM in France was at the beginning of the 20th century with creation of the role of "foreman" and the introduction of "shop rules", which were "unilaterally established by the employer as he sees fit, covering almost all areas of employee behavior that he wishes within the limits of public order and enforced by the foreman".[231] At the same time, some of the larger French companies adopted comprehensive welfare policies under the influence of the social doctrine of the Catholic Church and philanthropic ideas of others that included lodging and medical care. Workers' cooperatives were also formed at this time; however, Rojot noted that they were largely focused on improving the lives of workers outside of the workplace rather than on the conditions workers faced in the workplace and that the general feeling was that "[t]he plant is 'a place to produce', and little or nothing is done to make it cleaner, easier to operate in or more convenient for employees, not to mention comfortable or attractive" and that organization of the workplace was "dictated by the imperatives of production and technology and no thought is given to the human resources implicitly supposed to adapt to it."[232]

As was the case in many industrializing countries, Taylorism was introduced in French manufacturing companies in the early 20th century and responsibility for personnel matters remained in the hands of the employer-owners or chief executive officers, who sometimes delegated various tasks to the works managers. After World War I, however, personnel management began to emerge as a specialized function in France as companies responded to a larger volume of statutory law relating to the employment relationship, vocation training became compulsory and testing and welfare programs became more popular. Larger French companies launched departments dedicated to a mixed set of "general services" that included not only personnel matters such as monitoring employee entrances and exits and timekeeping but also care of the building and grounds and guarding the premises against theft and fire. Some industries, such as banking, began systematically collecting information about their employees and organizing it into permanent individual personnel files. The rise in power and size of labor unions that began in the late 1930s and continued after the end of the Second World War required that employers implement policies and procedures to deal with elected employee representatives, requirements regarding paid vacations and 40 hour workweeks and the details of collective bargaining agreements, and personnel departments began to focus specifically on hiring, payroll, personnel administration, and relationships with the employee delegates.

A French national association of personnel managers was created in 1947 and by the early 1960s personnel managers found themselves engaged in a wide range of activities including hiring, manpower management, job evaluation, discipline, administering work rules, relations with employees, training and administration of welfare and retirement plans.[233] The personnel function was still referred to as the "personnel department;

---

[230] J. Rojot, "Human Resource Management in France", in R. Pieper (Ed.), Human Resource Management: An International Comparison (1990), 87.
[231] Id. at 88.
[232] Id.
[233] Id. at 90.

however, the level of formalization had increased and the department typically had achieved director status within the organizational structure. Personnel directors had high levels of formal training and were often expected to be involved in consideration of business policy issues for their companies. French workplaces at that time retained their highly bureaucratic structure and organizational culture and were characterized by centralization, a proliferation of impersonal rules and the influence of the country's educational system that produced a continuous stream of elite managers that filled the highest positions in the organizational hierarchy and severely stifled upward mobility for those who do not have the requisite credential even if they were otherwise qualified. Statutory laws had a significant impact on the employment relationship in France, often addressing seemingly minor issues that were left to collective bargaining in other labor systems, and the role of the state as the largest employer in France could not be ignored since it obviously determined the wages and working conditions for large number of employees throughout the country.

Massive strikes in 1968 were the beginning of a series of shocks to the French economy and labor markets that continued for two decades. In successive waves, employers were called upon to deal with a whole host of new personnel issues such as immigrants and women in the workforce and the influence of multinationals that brought their own ideas regarding HRM into the country. During the 1980s, there were several interesting changes that permanently influenced the direction of French HRM including the erosion of the social promise of life-time employment due to the need to dismiss employees for economic reasons; the introduction of new approaches to employment, such as temporary employees, short-term employment contracts, part time work, call contracts and subcontracting; the introduction of outsourcing arrangements; and the introduction of new forms of compensation arrangements, including profit sharing, bonuses and premiums.[234] Companies also began to inject more individualism into the relationships with their employees by creating individual career plans; focusing on the relationships of managers and those who reported to them, including tracking and attempting to resolve employee dissatisfaction with managerial actions; implementing job enrichment tools to achieve better integration of employee goals with firm objectives; and adopting individualized incentives for performance in compensation arrangements. Training and teamwork also received greater attention as HRM strategies became more sophisticated.

Cerdin and Peretti picked up the story with their 2001 article that began by noting that French organizations would need to deal with several challenges owing to a demographic profile that reflected a low birth rate from 1930 to 1945, a post-war population explosion and a birth rate for generations born after 1978 that was higher than in France's main bordering countries.[235] On the one hand, France was fortunate that the low birth-rate between 1936 and 1945 meant that the country would not have the problem of financing retirement that would likely burden other countries; however, the relatively large group of persons born between 1946 and 1955 would require attention to ensure that their skills did not become obsolete and that they remain committed to the workforce. In addition,

[234] Id. at 100-101.
[235] J-L. Cerdin and J-M. Peretti, "Trends and Emerging Values in Human Resource Management in France", International Journal of Manpower, 22(3) (2001), 216.

France would not lack for young university graduates, but it would be important to find places for them in French firms and adopt HRM practices that were suited to their generational outlook. Cerdin and Peretti also pointed out that the state still played an influential role in role in French industrial relations at the turn of the century, as demonstrated by its push for reforms of work hours that led to the establishment of the 35-hour workweek, and that French labor unions, while still visibly active using "confrontational" bargaining strategies, were suffering a continuing and precipitous decline of their power and an erosion of their membership to levels far below the other main industrial countries.[236]

Turning to specific HRM practices in France at the beginning of the 2000s, Cerdin and Peretti explained that French employees were accepting more and more individual responsibility for managing their careers and that the HR function shared responsibility with line managers and top management for supporting employee development in order to maintain their loyalty. It was clear to both employers and employees that companies could no longer guarantee long-term employment and that employees needed to be proactive in developing their own employability, both inside their current companies and on the general labor market. Cerdin and Peretti noted that HR managers typically gave more attention to offering career management services—career planning and coaching—to high potential employees from whom qualitative flexibility was expected and that these employees were more likely to be offered flexible compensation and specialized management and training.[237] Apart from career management, French labor laws mandated minimum levels of investment in training for employees and Cerdin and Peretti noted that, on average, French firms contributed 3% of total wages to training and that over 60% of the employees of larger companies participated in training programs. Access to training varied significantly based on qualifications with participation rates among unskilled workers being just 10% while access among technicians and executives was at the 60% level. According to Cerdin and Peretti: "The trend in training is for organizations to tailor their programs to their direct needs . . . [and] . . . [a] recent trend is to grant employees timesaving accounts for training, which they can use to develop their own employability."[238]

With respect to compensation arrangements, Cerdin and Peretti noted that while French companies had, up to the 1980s, relied on job-based compensation, the 1990s had seen a shift toward more flexible jobs and a growing tendency among employers to take into account employees' competencies when making decisions regarding pay. In fact, they observed that "[t]he French are champions of the individualization of compensation" and the "widespread use of bonuses and exceptional premiums enables organizations to reward individual performance, yet keep a security margin in case the economy deteriorates"[239]; however, they also pointed out that when increasing the variable part of individual compensation employers needed to be mindful of equity issues. Companies sometimes sought to achieve and preserve equity with respect to flexible compensation

[236] Id. at 217-218.
[237] Id. at 219.
[238] Id. at 221.
[239] Id.

by offering cafeteria plans that increased employee satisfaction and firms also attempted to reduce individual distinctions, and build a sense of collectivity, by creating company-wide profit sharing programs. Implementing flexible compensation arrangements tied to organizational strategy was a challenge for HR professionals since they still had to take into account the mandatory benefit requirements imposed under French labor laws.

Reporting on the results of a comparative study of HRM in firms located in six European countries, Cerdin and Peretti noted that HR personnel in France were generally perceived positively with respect to the efficiency of carrying out their administrative functions, but that HR and line managers desired a more strategic role for the HR function in the future.[240] Cerdin and Peretti argued that one could identify several main trends relating to French HRM at the beginning of the 2000s: increased foreign investment in France was driving HR managers to "add value to business performance" and implement innovative HR practices even in the face of challenges created by detailed and rigid national labor laws; HR functions were achieving substantial productivity gains using new technologies that allowed HR personnel to service an increasing number of employees, a trend that was expected to lead to a reduction in the size of HR departments; organizations were placing increased emphasis on, and investing in, competency approaches and practices; and the client-provider approach associated with the HR function during the 1990s was being replaced with a "partnership model" under which "HR professionals are becoming business partners both of top management and other managers and of each employee in the context of 'people management'" and the HR function was proactively training line managers to become more expert in HRM in keeping with an overriding principle that "all managers are human resource managers".[241]

In order for France to successfully execute it plans for shifting economic activities toward radical innovation it was necessary to implement legal and regulatory reforms to facilitate the use of incentives that would cause the country's technically skilled workers to pursue the more risky path of entrepreneurship with high-tech start-ups.[242] Traditionally, France's most qualified scientists and engineers had completed their education at elite institutions and been placed directly into positions with government R&D laboratories or with one of France's large industrial companies. These positions offered prestige and also came with the implicit promise and expectation of lifetime employment. In order to coax these persons away from their safe careers in government and industry, the government approved changes in France's corporate governance framework to allow companies to offer stock options that would create the possibility of extraordinary compensation attractive enough to offset the much higher personal and professional risks associated with joining new start-ups. Stock options were also seen as a valuable device for aligning the interests of managers and key technical personnel with outside

[240] Id. at 222 (citing P. Gooderman, O. Nordhaug and K. Ringdal, "Institutional and Rational Determinants of Organizational Practices: Human Resources Management in European Firms", Administrative Science Quarterly, 3(44) (2009), 507).
[241] Id. at 223.
[242] J. Vela, Radical Innovation in the Transatlantic Economy: Is a Silicon Valley Possible in Europe? (2009), 27-28.

shareholders providing risk capital for these companies and motivating and incentivizing them to work hard to maximize the value of the company.

§2:11 Product development and commercialization

Mazzarol and Reboud studied and compared the innovation management practices of small firms in France and Australia and found that for companies from both countries systematic approaches to the management of innovation (i.e., formal and systematic market assessment, strategic planning, marshalling of resources and protection of intellectual property) were most likely to provide enhanced success than a more random approach, the role of the government in supporting innovation by small firms at both the macro and micro levels was important, and leading customers and other strategic alliance partners (i.e., suppliers and research centers) played a central role in influencing decisions as to whether or not to proceed with investing in a particular innovation.[243] Owners of the surveyed French firms reported that it was difficult for them to access a workforce with the necessary skills and education and also had a fairly negative view of the availability of high quality managerial staff. They also complained about the high costs of doing business in France; the difficulties they had accessing venture financing and loans from commercial banks—the overwhelming majority of them admitted that retained profits were the most important source of capital to fund innovation; and the difficulties of building links with local universities and research centers.[244]

Mazzarol and Reboud found that the Australian firms in their study were significantly more likely than the French firms to seek to develop "technological product innovations", which were described as attempts to implement and commercialize a new product with improved performance characteristics that would deliver objectively new or improved services to customers, and that innovation among small French firms was more often focused on "technological process innovations" (i.e., changes in equipment, human resources and/or working methods that would lead to new or significantly improved production or delivery methods).[245] Mazzarol and Reboud commented that the differences in innovation focus between the Australian and French firms might explain why the Australian firms were more concerned than the French with customer acceptance and protection of intellectual property rights. Mazzarol and Reboud also found that the French firms appeared to be much more interested in developing innovations that were compatible with existing products or processes, a finding which contrasted sharply with the emphasis that the Australian firms placed on pursuing innovations that would hopefully lead to the creation or new standards or systems. Finally, French firms were much less likely than the Australian firms to engage customers and suppliers in the new product development process.[246]

---

[243] T. Mazzarol and S. Reboud, Innovation Management in Small Firms: A Comparison of French and Australian Companies (2007). Mazzarol and Reboud used a multiple case study methodology based on 89 cases—55 from Australia and 34 from France—and compared the characteristics of the firms and their management teams, their perceptions of the innovation climate in their host country, their approaches to strategic decision making and previous success or failure in innovation.
[244] Id. at 12-13.
[245] Id. at 18.
[246] Id. at 25.

Galvez et al. used the "potential innovation index", or "IIP", methodology proposed by Morel and Camargo to evaluate the innovation capabilities of a group of 32 "low-tech" French small- and medium-sized enterprises.[247] According to Galvez et al., IIP evaluates innovation capabilities within companies by looking at six criteria—creativity, new product development, human resources management, strategy, project management and knowledge management—and then classifies them into one of the following four categories intended to be descriptive of their strategic vision into its market: Proactive, Preactive, Reactive or Passive.[248] Galvez et al. found that 62.5% of the companies they studied were in the Passive, or low innovative, category, 31.25% were in the Reactive category and none of them could be classified as being Proactive. According to the researchers, Passive companies adopt a defensive attitude in dealing with their environment and are primarily focused on simply surviving, while Reactive companies react to the dynamics of their environment and await concrete demands from their markets before pursuing technological changes. As companies grew beyond 50 employees they were more likely to be Reactive as opposed to Passive. Strategy was the most important influence on the innovation capabilities of the French companies followed by creativity. Innovation practices associated with "strategy" included strategy integrated to favor innovation, network operation, client importance and financing, while the innovation practices associated with creativity included use of tools to increase creativity, integration of clients and supplier in the conception process, and organization and management of information regarding the company's external environment.

Roure studied companies in France and Germany to identify potential cultural differences in the characteristics of "product champions" in those countries.[249] Rouse found that in France, a high power distance culture, the chances for an innovation project to be successfully completely were greatly enhanced by having a product champion for that project who was close to top management of the firm and that a "top-down" championing process appeared to be favored in France.[250] In contrast, among the German companies studied the hierarchical level of the product champion appeared to have little significance with respect to whether or not an innovation project was supported by top management and "bottom-up" championing processes seemed to be just as likely as "top-down" initiatives. Roure noted that French product champions emerge out of the same elitist educational system that produces senior managers in that country and are thus more likely to have preexisting links to top management due to their similar backgrounds and educational experiences. In Germany, however, product champions climb gradually up the hierarchies of their firms, a process that provides them with better understanding of

[247] D. Galvez, M. Camargo, J. Rodriguez and L. Morel, "PII—Potential Innovation Index: A Tool to Benchmark Innovation Capabilities in International Context", Journal of Technology Management and Innovation, 8(4) (2013). 28% of the surveyed companies were engaged in the carpentry industry, while the rest were fairly evenly distribution of five activity sectors including construction, food, metallurgy, wood and others. See also L. Morel and M. Camargo, Comparison of Multicriteria Analysis Techniques to Improve the Innovation Process Measurement (2006).
[248] Galvez et al. used a typology first suggested in M. Godet, Manuel de Prospective Stratégique (1997).
[249] L. Roure, Cultural Differences in Product Champions Characteristics: A Comparison of France and Germany (1999).
[250] Id. at 16.

the organization and makes them more efficient in carrying out their activities in promoting new innovation projects.

Doring and Feix analyzed the potential influence of cultural determined differences on the supply chain management ("SCM") practices of French and German companies and found that the French companies were more likely than their German counterparts to have a well-defined SCM strategy and that the key success factors for the French companies in working with their suppliers included teamwork, technology and quality.[251] Doring and Feix found argued that the French appeared to be more controlling of their supply chain than the Germans and that a majority of the surveyed French companies engaged in a detailed analysis of costs, profit and return on investment. Companies in both France and Germany relied on regular information exchange and meetings with their supply partners and also engaged in joint planning. Doring and Feix found that the French companies seemed to be more interdependent and connected with their suppliers with respect to development of their own products, but less involved than the German firms with respect to the design and development of suppliers' products. As for the comparative strength of relationships with suppliers and customers, Doring and Feix commented that French companies were more customer-oriented than the Germans and survey results showed that the French companies had better relations with their customers than with their suppliers, shared more tactical company data with their customers, and preferred "customer integration" over "supplier integration". The French firms typically assigned responsibility for SCM to one of their senior managers while the German companies delegated responsibility for that activity to a specialized SCM department.

§2:12 Technology management

In the early 2000s, a report prepared by the national Ministry for Research and New Technologies announced that the priorities of French national research should be based on establishing and maintaining a strong platform of high quality basic research and focusing on several specifically targeted initiatives in priority areas such as sustainable development, the energies of the future, the fight against cancer, the digital society and space.[252] The French government set a target of investing 3% of the country's GDP in R&D activities and mobilizing various institutions within the country to develop the human capital necessary to increase and maintain the desired pace of innovation. French officials also stressed the need to reduce reliance of public expenditures on research and create incentives R&D activities in the private sector, including not only in-house R&D projects but greater collaborations between companies and university laboratories in line with partnerships typically seen in the US and the UK and increased funding and support from not-for-profit associations and institutions. The report emphasized the need to improve the environment for investment in smaller companies engaged in the pursuit of innovative R&D and to improve the competitiveness of distribution of publicly funded R&D projects so that smaller companies received a larger share of those opportunities.

[251] P. Doring and M. Feix, The Impact of Culturally Determined Differences on the Supply Chain Management of French and German Companies (2004).

[252] French Ministry for Research and New Technologies, Research and Technological Development in France.

Other priorities described in the report included implementation of tax incentive measures to encourage investment in innovation and establishment of "young innovative companies" and encouraging scientists in the public sector to become more involved in launching new companies focused on commercialization of technologies developed in their laboratories.

Martinsons and Davidson conducted a comparative study of the influence of societal culture on organizational implementation of BPR initiatives.[253] They found that the level of power distance ("PD") in the societal culture in which an organization operated had a significant influence on the involvement of employees in planning and decision making associated with BPR initiatives and that in France and other high PD cultures final authorization and initiation of BPR projects clearly came from the top of the organizational hierarchy, although recommendations for various changes may have originally been proposed by senior managers in the IT function.[254] In general, BPR was easier to authorize and initiate in the more centralized organizational structures typically found in high PD societies. PD also played a role in the degree to which employees were ready and willing to embrace some of the changes associated with BPR initiatives and the researchers observed that employees in high PD societies were not as interested in efforts to empower them or in taking on new responsibilities that also carried additional risks. It was also noted that employees in high PD countries were less interested in, and even anxious about, sweeping formal changes in organizational information systems given that they were used to operating in a centralized hierarchical structure that required much less in terms of formality and distribution/sharing of information. A final area in which PD played a significant role was in how employees accepted and adopted the new information systems ("IS") that are a typical part of BPR initiatives. Martinsons and Davidson found that organizations in higher PD societies, such as France, were less likely to tap into some of the purported benefits of the tools made available to them in their new IS. For example, they observed: "Firms operating in high PD cultures were less likely to develop and make use of formal IS plans or process models. Information systems in these contexts were used primarily for vertical communications to reinforce the hierarchical control of business activities." Martinsons and Davidson also noted that IS was seen by firms in high PD societies more as a tool to "monitor" operations in a growing business rather than to share information, a finding they believed to be consistent with what they referred to as an "autocratic information management strategy".

Martinsons and Davidson also noted that organizations in societies where the level of uncertainty avoidance ("UA") was high, such as France, often turned to IT as a means for reducing uncertainty through the implementation of forecasting and planning processes and that the level of UA also influenced the amount of planning involved in BPR

[253] M. Martinsons and R. Davison, "Globalization and Information Management Strategy: Cross-Cultural Perspectives", in H. Bidgoli (Ed.), The Handbook of Technology Management (2010) 653, 660-661.
[254] The countries in their study were categorized as follows with respect to PD: Brazil (High); China (High); France (High); Japan (Moderate); Sweden (Low); and the US (Low). M. Martinsons and R. Davison, "Globalization and Information Management Strategy: Cross-Cultural Perspectives", in H. Bidgoli (Ed.), The Handbook of Technology Management (2010) 653, 655.

initiatives.[255] They reported that managers in France, as well as other high UA countries such as Brazil and Japan, implemented extensive and detailed planning processes for their BPR projects in an apparent attempt to reduce project risks, and offered the following summary conclusions regarding the influence of UA on information management: "Our findings suggest that a systematic approach to information management will be accepted more easily in cultures where uncertainty avoidance and scientific management are high valued. Organizations that operate in cultures that are more comfortable with uncertainty would be less likely to invest in a detailed information management 'strategy'. They would also be less inclined to implement IS that specifically aim to reduce the level of uncertainty that would be faced by decision makers."[256]

Martinsons and Davidson suggested that many elements of BPR, including rhetoric based on military metaphors such as "blow up the old" and "shoot the stragglers", were consistent with a highly masculine ("MAS") societal culture and that implementation of BPR often conflicted with ideas that were highly valued in countries that scored low on the masculinity measure such as cooperation and secure employment.[257] Not surprisingly, while the researchers observed some form of resistance to BPR in all of the countries that they studied the levels of resistance in high-MAS countries such as China, Japan and the US was characterized as "manageable" while resistance was greatest and most problematic in the low-MAS countries (i.e., France and Sweden). The level of masculinity played a role in the strategies that firms used to overcome employee resistance to the changes implicit in BPR initiatives. In China, a high-MAS country, financial incentives (i.e., bonuses tied to objective measures of improvements in performance) were used; however, firms in low-MAS countries such as France and Sweden opted for altering the pace of implementation so that organizational changes were introduced more gradually.

Interestingly, the presence of high individualism in the societal culture, such as the cases of France and the US, often had a disruptive influence on implementation of BPR initiatives because it undermined the authority of managers in firms in those cultures to take the directive actions necessary to launch the changes thought to be necessary for BPR to be successfully implemented.[258] Managers in high individualism cultures complained that those under their supervision wanted to retain the right to manage information "in their own way" and that this made it difficult to introduce and establish information management systems intended to promote consistency and uniformity across the entire organization. Firms from high individualism cultures such as France and the US needed to use a mix of team incentives and individual performance-based rewards in order to form and maintain product BPR teams. Finally, differences related to individualism versus collectivism were observed with respect to how well certain types of IS tools were accepted. For example, group communications tools were welcomed and

---

[255] M. Martinsons and R. Davison, "Globalization and Information Management Strategy: Cross-Cultural Perspectives", in H. Bidgoli (Ed.), The Handbook of Technology Management (2010) 653, 661-662.
[256] Id.
[257] Id. at 662.
[258] Id. at 662-663.

readily adopted by firms in high collectivist countries while persons from high individualist cultures preferred new applications based on personal computers.

§2:13 Globalization

According to Lecerf, small- and medium-sized enterprises ("SMEs") accounted for 99.6% of the enterprises, 60% of the workers and 53% of added value in France as of 2012, and more than half of the French companies filing for patents were SMEs.[259] However, French SMEs have lagged behind their European counterparts on various measures of internationalization, a problem that Lecerf attributed to the insecurity of French SMEs in relation to larger firms. For example, while 11% of German SMEs engaged in exportation as of 2007, the percentage was much lower in France (4%) and France lagged well behind the admittedly low overall European percentage of 8%.[260] The same study by the European Commission found that while foreign markets contributed 14% of the sales revenues of German SMEs, only 8% of the sales by French SMEs were in foreign markets.

Lecerf examined the joint dynamics of internationalization and innovation strategies by measuring the impact of this strategy mix on the financial performance of 335 French small- and medium-sized enterprises ("SMEs") and found a strong interdependence between technological appropriation in internationalized SMEs and their business growth.[261] Lecerf argued that structuring and engaging in research and development activities for exporting SMEs will contribute to an increase in activity volume and technological resources were the common driver of both innovation and internationalization activities among the surveyed companies. Specifically, Lecerf found support for the propositions that following a "mixed strategy" of internationalization and codified innovation offered higher growth potential for French SMEs than a single internationalization strategy, the intensity of international trade depended on the technological capabilities of French SMEs, and accumulated technological capabilities improved the innovation codification of French SMEs. Lecerf also found that financial resources were key levers of codified innovation and that French SMEs could avoid financial barriers that might restrain their innovation processes by aggressively internationalizing their businesses.

[259] M-A. Lecerf, "Internationalization and Innovation: The Effects of a Strategy Mix on the Economic Performance of French SMEs", International Business Research, 5(6) (June 2012).
[260] European Commission, Supporting the Internationalization of SMEs: Final Report of the Expert Group (2007).
[261] M-A. Lecerf, "Internationalization and Innovation: The Effects of a Strategy Mix on the Economic Performance of French SMEs", International Business Research, 5(6) (June 2012).