Ben-Gurion University of the Negev

Guilford Glazer Faculty of Business and Management

Department of Management

CSR in Israel – An Overview

Presented at the 20th Herbstakademie "Wirtschafts- und Unternehmensethik", Wiengarten, Germany – November 2015

Liad Ortar[1]

November, 2015

This paper was prepared with the support of the Corporate Social Responsibility Institute (www.csri.org), College of Law and Business (www.clb.ac.il)

[1]The writer is a lecturer of CSR, Sustainability, and Environmental Management at Ben-Gurion University of the Negev and manager of the research project "Accompanying the Sustainability Reporting Transition Academically," The Transcultural Caravan – link

liad.ortar@gmail.com

The origins of CSR in Israel

The history of CSR in Israel dates from before the establishment of the State in 1948. In fact, as the State of Israel was established on the foundations of the British Mandate and the Ottoman Empire that preceded it. The roots of CSR in the country can be traced to the governmental structures put in place by both the British and the Turks.

Another important source of inspiration of the manifestation of CSR in Israel can be traced to the ethical foundations of Judaism. Because Israel was established as a Jewish state, and is still defined as such, the ethical foundations of Judaism are an integral part of CSR in Israel and of business norms of behavior (Verbin & Freeman, 2010). In light of this situation, corporate philanthropy is also perceived as giving charity, which is, indeed, a biblical commandment (*mitzvah*):

> *"If there be among you a poor man of one of thy brethren within any of thy gates in thy land which the LORD thy God giveth thee, thou shalt not harden thine heart, nor shut thine hand from thy poor brother: But thou shalt open thine hand wide unto him, and shalt surely lend him sufficient for his need, in that which he wanteth."* - King James Bible "Authorized Version", Cambridge Edition. *Deuteronomy 15:7,8*

According to this commandment, it is obligatory for Jewish people to show generosity to the poor and to provide them with the charity they need. Later Jewish scholars added the element of secrecy to giving charity, stating that the virtue of concealing the donation is to prevent the one who receives it from feeling shame. The sages claimed that the highest virtue is to be gained by the giver from mere giving, without receiving any formal recognition. This is the true essence of charity (Minzberg, 2014).

Corporations in Israel have practiced philanthropy throughout the years. It is challenging to grasp the full scope of donations given by businessmen or corporate entities as one of the major elements of the Jewish charity (*tzdaka*) if it is given secretly. Yet, looking at the charity figures from a country-wide perspective, the relative contribution of corporate entities is fairly low. In 2014, a wide-ranging survey conducted by the Central Bureau of Statistics addressed the donation figures between 2009 and 2011.[2] The survey examined the revenues of 408 nonprofits with annual incomes of over NIS 500,000 ($143,000), which is a representative sample of such Israeli organizations. Of the total income of the NGO sector in Israel, only 4.7% comes from Israeli philanthropy (private and business). This portion represents net donations of approximately 5.6 billion NIS[3] (~1.6 billion US$). Of the 4.7%, the business sector is responsible for only NIS 1.5 billion net in donations, which represents a minor percentage of some 1.5%. This number might explain the title of the article that covered the findings of the survey: "Israeli Corporations Don't Give to Charity."[4]

Since it seems that normative Jewish tradition regarding charitable business behavior is not sufficient to encourage CSR practice of philanthropy, it might be worthwhile to examine alternative paths that exist in Israel and are bridging between the business sector and society. One should begin such an examination by reviewing the fundamentals of Israeli law in this regard.

---

[2] The Israeli Central Bureau of Statistics, *Philanthropy of Israelis 2009-2011*. 2014 http://goo.gl/Yb665S

[3] NIS = New Israeli Shekel. 1 NIS ~ US$ 3.4

[4] Lior Datell. *Haaretz*, March 4, 2014. “Israeli Corporations Don't Give to Charity”. http://www.haaretz.com/business/.premium-1.577724

The Israeli Companies Law[5] states that the purpose of a limited company is "…*to operate in accordance with business considerations in realizing its profits, and within the scope of such considerations, the interests of its creditors, its employees and the public may inter alia be taken into account; similarly, the company may donate a reasonable sum for a proper object, even if such donation is not within the scope of business considerations as aforesaid, if a provision for such is laid down in the articles of association*."[6] With this statement, Israeli law set the boundaries for companies' operational goals, which are to satisfy their owners' expectations, e.g., to maximize profits. This basic assumption resembles those that underlie other corporate laws around the world. As a result, CSR is still considered a "beyond compliance" norm of behavior, as it is not always profitable.

The Israeli law books are filled with laws that aim at targeting social and environmental challenges. For further reading on this topic, please refer to Bin-Nun's (2009) introductory book on Israeli law, Saban and Amara (2002), who present the angle of equality and the law with regard to Arab citizens of Israel, Meydani (2014) on human rights, and Barak-Erez (1998) on civil rights and privatization. As this paper focuses on CSR practices in Israel and specifically on environmental reporting, this introduction focuses on applied CSR methodologies and the level of their uptake among Israeli corporations.

Currently in Israel there are four major approaches to CSR as an overall managerial system (disregarding specific issue-based initiatives such as those that combat discrimination in the work force or focus on accessibility or environmental issues). These approaches are the Global Reporting Initiative (GRI) sustainability

[5] The Israeli Companies Law 5759-1999, enacted by the Knesset on April 19, 1999; The Bill and Explanatory Memorandum were published in *Hatsaot Chok 2432*, on October 23, 1995), p. 2. http://www.isa.gov.il/Download/IsaFile_958.pdf

[6] The Israeli Companies Law, Chapter 11(a), p. 9

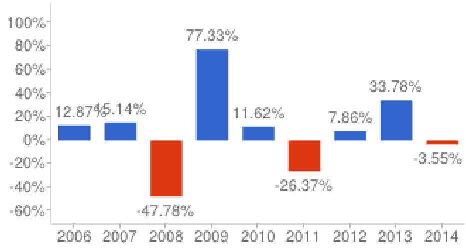
reporting guidelines, MAALA ranking, the Israeli SI 10000 standard (issued by the SII = Standards Institute of Israel) for social responsibility[7] and a preliminary law proposal for mandatory non-financial reporting. As this proposal has not yet been formally presented to the Israeli Knesset (parliament), this review will not include it. All of the above approaches are examined and compared in depth in Helmar & Ortar (2014).

MAALA Ranking

One of the major starting points of modern CSR in Israel was the formation of MAALA in 1998 (Verbin and Freeman, 2010). MAALA is an umbrella NGO, associated with BSR[8], which brings together corporations that feel committed to CSR and want to create common ground for joint initiatives and discussion. Since 2003, MAALA has operated a CSR ranking system called the MAALA Index (*derug MAALA*). In 2014, 75 companies participated in the ranking system (MAALA, 2014).

The ranking outcome is presented according to three achievement levels: silver, gold, and platinum. The top-listed companies that participate in the ranking are included in a special trading bond (*Kesem MAALA* No- 1117258) that is divided into 33 companies, each with a ratio share part of approximately 3%. Since its establishment in 2005, the bond has shown volatility in annual performances (see Picture 1).

[7] For additional information on the standard, please go to http://goo.gl/JimDlS
[8] Business for Social Responsibility – www.bsr.org



Picture 1[9]

GRI in Israel

The previous GRI sustainability reporting guidelines (the G3) were first introduced to the Israeli market and translated to Hebrew in 2007 by Liad Ortar, then the owner of a consultancy firm (Arkada Initiatives LTD.) and currently a scholar in the field and a contributor to this research. Prior to the translation, the GRI had scarcely been known in Israel, with only one report using the early version of the guidelines. Following the translation and a massive public campaign that resulted in a sharp increase in media coverage of CSR (Filberg, 2014), the number of CSR reports published in Israel increased sharply. In 2009, 18 reports were published, and the annual rate has remained steady, with some 14 reports published each year since that time (Ortar et al., 2013).

Today, GRI in general and its sustainability reporting guidelines are an important factor in the overall regulatory structure of CSR in Israel, but not the dominant one. As mentioned above, 75 companies participated in the MAALA ranking, while only 14 published CSR reports. Thus, while the numbers show an increase, still only a tiny minority of corporations in Israel have taken the voluntary transparency standards upon themselves. In this regard, one should take into account that MAALA ranking is what is called in the jargon a "click the box' index" or a

[9] From the Israeli Stock Market site - http://ksmc.co.il/Share.asp?ShareID=1117258

"black box." By using this term, I refer to the fact that the corporations provide social and environmental information following an in-depth questionnaire. The information is processed and compared externally, and the final publication consists only of the results of the final comparison and not the information per se. By employing this approach, MAALA protects its participants from exposure to public scrutiny, so the companies themselves risk almost nothing. Notably, this approach contradicts the key CSR principle of transparency and accountability.

Israel, like any other society, presents its own special challenges for CSR. Among these are matters such as equal opportunities for Arab citizens, providing assistance for new immigrants, facing a steady population increase, labor issues regarding Palestinians, and the ongoing security challenges that erupt from time to time and cause major hardship in the business community (Verbin and Freeman, 2010). All of these issues were discussed in a multi-stakeholder process that was conducted in 2008 and resulted in the publication of the Israeli appendix to the GRI.[10] Since the GRI decided to abandon country-specific reporting initiatives, this proposal and similar proposals from other countries will not be incorporated into the reporting guidelines themselves. In Israel, this set of local performance indicators was used in the early stages of drafting the law proposal for mandatory sustainability reporting.[11]

IS10000 - Guidance on Social Responsibility of Organizations

The Israeli Standard on Social Responsibility originated as a managerial guide for companies seeking to incorporate CSR into their operations. The standard has

[10] To read the full annex proposal, please follow this link: http://goo.gl/DkQRTf

[11] Ortar, Liad. Towards Regulated CSR Reporting in Israel- *Presenting the Israeli law proposal for mandatory sustainability reporting*. CSRI, College of Law and Business (2015) Link

appeared in several versions, the first of which was published in 2007, and was a pioneer in the global context of standardizing CSR. Israel's SII representative to the Global ISO contributed significantly to the creation of ISO 26000, which is now a leading managerial standard for CSR.

ISO 26000 was established to serve as a helping hand to managers and was not and is still not intended for attestation purposes. That is, companies can implement the standard, but there is no auditing process in place that can provide certification to the company. In other standards, such as ISO 14001, the procedure is different, and after implementing the required measures, the company can invite an external auditor and receive public recognition and certification at the end of the process.

In 2013, SII published an updated version of SI 10000 in which they put into place a certification procedure, and currently there are seven Israeli companies that proudly display their SII awards for implementing CSR. An in-depth study on the actual behavior of these companies was conducted at the Corporate Social Responsibility Institute (Ortar, 2014 [1]) and its findings demonstrated that the performances of awarded companies were weak in terms of transparency and revealing their actual non-financial performances and obligations.

Non-financial Reporting

As environmental, social, and governance issues have gained popularity, international initiatives have been created to provide corporations with the needed guidelines and principles both on how to implement CSR and on how to communicate their achievements. An understanding has emerged that mere financial reporting is not sufficient to account for the multiple and evolving dimensions of corporate values

(Gray, 2000; Simmet et al., 2009). Thus, a corporation should also provide a non-financial report alongside its financial one.

In Israel, companies are divided into four major categories. Each category is different in its formal reporting requirements, but none has any obligation to report on non-financial issues, with the exception of large and polluting corporations. The typology is as follows: 1) privately owned companies; 2) listed/traded companies; 3) governmental companies (including municipal companies); and 4) not-for-profit companies.

Privately owned companies in Israel are required by the Companies Law to file the reports on the following: amendments to its articles, including changes to its name; the increase or decrease of its registered capital; any change to its registered address; a notice stating that the company has or does not have an auditor; and changes made to the board of directors and the issuance and transfer of shares (Fuchs, 2010).

Traded companies are obligated by law[12] to a much larger set of periodic or immediate reports divided into five chapters as follows: a description of the corporation's business; a directors' report concerning the state of the corporation's affairs; financial statements; additional details concerning the corporation; and a report on the effectiveness of internal auditing regarding financial reporting and disclosure. This basic set of financial reports has been elaborated in recent years in order to include peripheral issues such as environmental risks. The Israel Securities Authority has recently drafted a proposed revision to the regulations on public offerings, in connection with the obligation to disclose environmental risks arising

[12] Securities Regulations (Periodic and Immediate Statements), 1970, Article 8 onwards. http://goo.gl/GBRlI4

from the activities of publicly traded companies and the management of such risks. The proposed revision requires extensive reporting on such topics as applicable environmental laws and regulations, as well as expected environmentally-related expenditures and investments (Dagan, 2014).

Government-owned companies are accountable to the government and to the Finance Committee of the Knesset. They are obligated to deliver financial reports to the Government Companies Authority (GCA), which serves as their regulator. Similarly to private and traded companies, Israeli governmental companies have no additional obligations in terms of non-financial reporting. In 2013, the GCA and the Israeli Ministry of Environmental Protection (IMEP) published the Sustainable Development Guide for Governmental Companies,[13] a comprehensive guide for implementing sustainable considerations in the everyday operations of the company. However, the standard set by the guide for transparency requirements is fairly low (Ortar, 2014 [2]). There is only a general recommendation regarding the revelation of non-financial information, and no concrete guidelines are provided.

[13] For the full guide (in Hebrew) see link - http://goo.gl/UwKuxw

Conclusion

CSR in its European version, as a broad concept of evaluating social and environmental influences and then providing an appropriate response 'beyond compliance' is still an emerging concept amongst Israeli businessmen. The uptake of GRI sustainability reporting is extremely low and so is the number of Israeli companies who are members of the Global Compact.

We do see an increasing number of companies participating in the MAALA ranking, but its quality as a genuine CSR indicator is still questionable, as the answers provided by corporations to the MAALA questionnaire are kept secret, with no public access to them. Time will tell whether external pressures, such as those of the EU Directive for Non-Financial Reporting, and the need for Israeli suppliers to provide ESG information to their European customers, will bring about the change and expansion of CSR methodologies and guidelines in the Israeli market.

Resources

- Barak-Erez, Daphne. "Civil Rights and Privatization in Israel". *Israel Yearbook on Human Rights 28* (1998): 203–216.
- Bin-Nun, Ariel. *The law of the State of Israel: An introduction*. Rubin Mass, 1990.
- Dagan, Ruth. *Environmental Risk Management in the Israeli Business Sector – Recent Trends and Developments*. Herzog, Fox & Neeman. 2014 http://goo.gl/ocEaVF
- Filberg, Shiri. "Benefits of Developing Corporate Social Responsibility (CSR) in Israel". Toulon-Verona Conference on "Excellence in Services". 2014.
- Fuchs, Meir A. *A practical guide and an overview of the Israeli Companies Law as to privately held companies*. Gideon Koren & Co. 2010 - http://goo.gl/ltkCfv
- Gray, Rob. "Current developments and trends in social and environmental auditing, reporting and attestation: A review and comment". *International Journal of Auditing 4*.3 (2000): 247–268.
- Helmar, Hagit & Liad Ortar. *Making the Connection - A comparative analysis of common Israeli CSR applied methodologies*. The Corporate Social Responsibility Institute, College of Law and Business. 2014 (In Hebrew)
- MAALA, 2014 Index results. 2014 http://goo.gl/Egmiv7
- Meydani, Assaf. *The Anatomy of Human Rights in Israel: Constitutional Rhetoric and State Practice*. Cambridge University Press, 2014.
- Yehuda L. Minzberg. *Hidden Charity according to Hazal*, Bava Batra pages 9,10. *Agadot Hazal*, Herztog College. 2014.
- Ortar, Liad. (1) *Transparency in the Israeli 10000 standard for Corporate Responsibility*. The Corporate Social Responsibility Institute, College of Law and Business. 2014 (in Hebrew).
- Ortar, Liad. (2) *Transparency in the Sustainable Development Guide for governmental companies*. The Corporate Social Responsibility Institute, College of Law and Business. 2014 (in Hebrew).
- Ortar, Liad, Ofer Sitbon, & Ronit Duniz-Kedar. *Corporate social responsibility – towards environmental and social reporting*. The Corporate Social Responsibility Institute, College of Law and Business & the Information Center of the Knesset. 2013 (in Hebrew).
- Saban, Ilan & Muhammad Amara. “The status of Arabic in Israel: Reflections on the power of law to produce social change”. *Israel Law Review*, Vol. 36, No. 2, pp. 5–39, Summer 2002.

- Simnett, Roger, Ann Vanstraelen, & Wai Fong Chua. "Assurance on sustainability reports: An international comparison". *The Accounting Review 84*.3 (2009): 937–967.
- Verbin, Ivri & Dena Freeman. “Ch 24- Israel”. In: Visser, Wayne, and Nick Tolhurst, (Eds.) *The world guide to CSR: A country-by-country analysis of corporate sustainability and responsibility*. Greenleaf Publishing, 2010 (pp. 217–222).