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Cooperative Networks of Arabs and Jews in the Context of Economic Business Entrepreneurship

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Introduction

The present study focuses on the patterns of entrepreneurship that have emerged among Israeli businesspeople in the wake of the peace treaties between Israel and its Arab neighbors. The primary objectives of the study are to characterize the Israeli entrepreneurs who have entered into business ventures with partners in the Arab states, and to assess their expectations from these ventures, the difficulties they confronted in establishing their businesses, and their estimation of the success of their activities.

This paper is intended to provide a systematic overview that will permit a clearer understanding of the socioeconomic context in which the economic ventures of Israeli businesspeople in the Arab states are taking place. Towards this end, the study examines the following questions:

a. What are the sociodemographic characteristics of Israeli entrepreneurs in the Arab states?

b. What are the patterns of cooperation between the entrepreneurs?

c. What are the typical difficulties encountered by the entrepreneurs in setting up their businesses?

d. What are their expectations of the entrepreneurship?

e. What are the perceived achievements of these joint undertakings?

These questions will be explored on a comparative basis, in accordance with the size of the various enterprises.

The present study represents a groundbreaking survey of the socioeconomic arena in which these entrepreneurs operate. It provides vital information on their economic activities from the standpoint of the entrepreneur himself, thereby contributing to a better understanding of the entrepreneurial process between Israel and the neighboring states.

General Background

The peace treaty signed between Israel and Egypt in March 1979 signified a breakthrough in Israel's ties with its Arab neighbors. Clearly, the ensuing years have produced little more than a "cold peace" with the neighboring countries. Nevertheless, certain economic ties did begin to emerge immediately following the signing of the treaty with Egypt. The peace treaty between Israel and Jordan, signed in the early 1990s, also generated expectations of a change in the political relations between the two states. There were high hopes for a new era of normalization in the region and for the emergence of a new Middle East with all that this entailed—primarily in the economic sphere.

The public sector and the state agencies, as well as the private entrepreneurs, saw the peace process as a prime opportunity to develop new markets as part of the region's stabilization, growth, and progress.

The new reality that was created, first between Israel and Egypt, and later between Israel and Jordan, and Israel and the Palestinian Authority, was expected to facilitate commercial ties, cooperation, and partnerships between companies and financial organizations, not only in the states bordering Israel but also in the Arab world as a whole. And indeed, far-ranging activity did begin to take place and appeared to be headed toward expansion. But the wave of violence that broke out in September 2000 between Israel and the Palestinians shattered these hopes, to a large extent. The Palestinian *intifada* undermined stability throughout the region and caused significant harm to the ties that had already begun to develop between Israel and its regional neighbors both near and far.

Israeli citizens who used to travel to Arab countries for business or pleasure now avoid doing so as a result of the personal risk involved. In July 2001, an Israeli owner of a diamond factory was murdered in Jordan. Consequently, the Israeli government has instructed its citizens to refrain from traveling to the Arab states or to the West Bank and Gaza. This situation also has serious ramifications for the future of entrepreneurial ties between Israel and its neighbors: without the ability to travel to those places where the factories and companies are located, it is difficult to maintain ongoing activity, and the chances of continuing to develop a normal entrepreneurial relationship are greatly diminished.

This is compounded by organized Palestinian incitement in the industrial zones where Israeli factories are located. Such incitement leads to strong anti-Israeli leanings among the Arab workers employed in these areas, out of a sense of identification with their Palestinian brethren. This identification fans feelings of rage against their Israeli employers, who are seen as opportunistic businesspeople whose sole aim is to amass more wealth while exploiting the political and economic weakness of the workforce in the industrial areas, primarily in Jordan.

Advantages of Economic Cooperation

Economic cooperation between Israel and the neighboring Arab states carries numerous advantages for both parties. Israel, despite being a small state lacking in natural resources, is the most developed industrialized nation in the Middle East. Israel has the characteristics of a modern economy and is ranked by the World Bank as a high-income economy, in contrast to the economy of Egypt, for example, which is marked by an extremely low level of productivity. While the last decade has seen the implementation of structural reforms in Egypt, including privatization and the development of a market economy, Egypt still suffers from low output and a relatively weak economy despite these structural changes and the country's natural resources.

Likewise, the Jordanian economy is comparatively weak. Jordan's Gross Domestic Product (GDP) is only one-tenth that of Israel's and, for many years now, the relatively undeveloped economy has driven the country's professionals and skilled workers to seek employment outside its borders. Those who remained behind preferred to find work in the public rather than the private sector. In Jordan, as in Israel, a process of privatization has been underway place since the 1980s with the resultant impact on unemployment rates; but, unlike the case of Israel, the bulk of private entrepreneurship in Jordan is still undeveloped and is aimed primarily at the local market and the Jordanian business sector, including mostly small businesses. While both Jordan and Israel suffer from a negative trade balance, Israel directs most of its industry toward export, aimed primarily at Western Europe and the United States, whereas Jordan's exports to the West are extremely limited and its economy particularly weak.

The relative weakness of the Jordanian economy, as manifest in a lack of employment opportunities and a comparatively low standard of living, contributes to the emergence of a workforce that is available and inexpensive by comparison with that of Israel. The cost of Israeli labor is relatively high, affecting production costs, driving up the cost of the product, and making it difficult to compete on the world market. In order to compete in the global marketplace, it is necessary to reduce production costs; this can only be achieved by manufacturing in places where the cost of labor is low. By setting up factories in Jordan, Egypt, and the areas under Palestinian Authority control, it is possible to pay much lower wages to workers, thereby significantly lowering employment costs and making it possible to compete in the world market. Thus entrepreneurial ventures of this type represent a great advantage to the business sector. At the same time, the interest in developing Israeli entrepreneurship goes hand in hand with creating employment opportunities for the unemployed in the Arab states, lowering unemployment rates, and oiling the wheels of the local economy.

For this reason, the Jordanian government, for example, has taken a number of steps, among them the reduction of taxes and the simplification of bureaucratic procedures. The goal is to promote Israeli entrepreneurship and to make Jordan an attractive address for Israeli investors.

Israel's economic ties with Jordan evolved as follows: In October 1995, an agreement for economic and commercial cooperation was signed between Israel and Jordan. This agreement was largely asymmetrical in that it granted the Jordanians greater access to the Israeli market while limiting Israeli access to the Jordanian market. Despite the lack of symmetry, the establishment of commercial ties with Jordan was expected to create commercial opportunities for Israel in other regional markets as well, specifically those Arab states that had not traded with Israel to date. It is noteworthy that the agreement did not generate much enthusiasm among the Jordanians, and the Jordanian business sector even expressed sharp opposition to a partnership with Israel, primarily as a result of the overrepresentation of Palestinians within these organizations. Nevertheless, an Israeli trade fair took place in Jordan in January 1997. While it met with fierce opposition and mass demonstrations, ties were concluded behind the scenes between Israeli and Jordanian businesses. Figures published by the Central Bureau of Statistics in Israel indicated a significant increase in trade between Israel and Jordan over the course of that year.

Cooperation and open borders gave Jordanian merchants access to the ports of Haifa and Ashdod thereby providing the major advantage of a shortcut to the European and American markets. Transporting the goods through Israeli ports significantly lowered shipping costs compared with the maritime trade conducted via the port of Aqaba. But the decline in activity at the Aqaba port aroused stiff opposition to the use of Israeli ports. This example illustrates only some of the obstacles that faced entrepreneurs on both sides in their attempt to create economic cooperation between the two countries. Nonetheless, both sides had an economic and political interest in promoting shared ventures between the states, which explains the flurry of activity that took place immediately following the signing of the peace treaties.

Unfortunately, the Palestinian *intifada* of September 2000 has almost completely destroyed the dream of Israeli-Arab cooperation, which had begun to take shape among the neighboring Arab states. As early as October 17, 2000, for example, the Federation of Egyptian Chambers of Commerce decided to call a halt to trade ties of any type with Israel. In its decision, it urged Egyptian businesspeople to boycott Israel and not to engage in any form of economic cooperation with the state. The Jordanian Chamber of Commerce, which is controlled by Palestinian businesspeople, followed in the footsteps of its Egyptian counterpart, suspending certain of its joint economic activities with Israel. However, despite the difficult geopolitical situation, some economic ties are still being maintained between the two countries and, at least officially, business activities have not evaporated entirely. In light of the above, this study is intended to explore the attempt at forging economic ties with the Arab states and to characterize the Israeli partners in this economic game, primarily from the standpoint of the businesspeople themselves.

Theoretical Approaches

Before addressing the questions raised above, it is worth reviewing the relevant literature, which examines the processes underlying the decision to enter into a business ventures. The issues explored include the practical aspects of setting up new organizations, on the one hand, and the exploitation of opportunities, monitoring of resources, ongoing administration, and ownership of existing organizations, on the other. Entrepreneurship therefore entails the creation of new products, services, technologies and markets, and the operation of existing ones.

The study of entrepreneurship, which has gained considerable momentum in recent years, offers two approaches with respect to the factors that motivate people to go into business:

a. The first approach (Knight, 1933; Schumpeter, 1934) posits the existence of "entrepreneurial types" within an environment that encourages entrepreneurship. Such individuals possess the psychological characteristics, personal and family background, and human capital considered "appropriate" for engaging in business ventures. The literature proposes a range of traits that are seen as important for entering and succeeding in business. Successful business owners are unique individuals with observable qualities (Scase & Goffe, 1982; Goffe & Scase, 1985; Pallegrino & Reece, 1982). They are perceived, for example, as people with a strong entrepreneurial drive, who are willing to take risks upon themselves in order to achieve economic goals. They also have a strong inclination toward individualism and independence.

Some of these characteristics are apparently learned at a young age as part of the socialization process that shapes the behavior patterns, expectations, and ambitions of the individual (Marini & Brinton, 1984; Marshal & Wijting, 1980; Bowels & Gintis, 1976). Social class and ethnic origin also play a role in the behavior and decisions of entrepreneurs. Sociocultural characteristics are likely to influence the decision to go into business. Ethnocultural resources can include, inter alia, cultural heritage, beliefs, and values, as well as social networks and social solidarity with the group of origin. The literature also discusses cases in which the marital status of the entrepreneur is a factor that affects his integration into the business world and his chances of success. Family members are likely to provide concrete physical help directly to the business through paid or unpaid employment. Alternatively, releasing the entrepreneur from the obligation of domestic chores also represents a significant form of help. Emotional support by a spouse is also found to have a positive impact on the chances of success of the business. By contrast, heavy familial responsibilities that make extreme demands on the businessperson's time on a regular basis are liable to detract from a self-employed individual's ability or desire to devote the bulk of his time and energy to running the business. The entrepreneur's marital status is therefore likely to be an additional factor in the success or failure of his business (Scase & Goffe, 1982; Aldrich et al., 1983).

Human capital, in terms of level of education and past employment experience, affects the individual's degree of attraction to entrepreneurship and, even more so, his chances of success. Nevertheless, it seems that in many cases the notion of going into business is especially attractive to those who lack formal education, precisely because it does require diplomas or formal certification, which are necessary in the salaried labor market.

b. The second approach expands on the argument that going into business is a behavior that individuals are "pushed into," not because of unique characteristics but as a result of constraints stemming from the inherent inequality of society and the set of opportunities available at a given time. These factors can force the individual to turn to business as the "lesser evil" in the absence of other alternatives. But since the entry into a particular niche is affected by the level of competition in the marketplace, these entrepreneurs are sometimes forced to make do with "leftovers," meaning that they enter certain businesses not necessarily out of interest but out of lack of choice. These two approaches can explain the behavior of entrepreneurs and their chances of success in the various types of business ventures.

Types of Multinational Cooperation and Entrepreneurship

For purposes of analysis, the theoretical literature identifies a range of multinational cooperative arrangements at differing levels of cooperation (Hashai, 1993). Among the accepted forms of cooperation are:

1. merger of companies aimed at sharing production resources;
2. joint business venture among several companies;
3. joint R&D programs;
4. cooperation between nations or a consortium;
5. joint marketing by companies;
6. foreign acquisition of local industry;
7. foreign investment in a company that is developing a particular product;
8. limited foreign investment (purchasing a share in a foreign company);
9. licensing of a local company to manufacture a foreign brand;
10. sub-contracting for a foreign company.

The first five types are the most demanding, and require personal cooperation between the partners. In these types of arrangements, the business venture is liable to fail if there is inadequate cooperation between the partners.

Research Hypotheses

A review of the literature dealing with the characteristics of entrepreneurs and entrepreneurship demonstrates that, in order to understand the arena in which businesspeople in general and businesspeople in joint ventures in Arab states in particular are operating, one must first examine the sociodemographic characteristics of entrepreneurs along with the social and structural context that might indicate the chances of success or failure of such a venture.

As stated above, a variety of qualities—related to both the personality and sociocultural background of the businessperson—are considered important for entering and succeeding in the business world. A strong drive to achieve is certainly one of the important qualities that make businesspeople willing to take risks in order to attain economic goals. This leads to the assumption that businesspeople have high expectations regarding financial profitability and achievements. This desire for profit represents a prime motivating factor in the decision of Israeli entrepreneurs to set up a business in the Arab states.

Characteristics that come under the rubric of human capital are also important for entrepreneurs, leading us to assume that businesspeople would rank relatively high in measures of human capital. However, there are a number of constraints that are liable to diminish the venture's chances of success; for this reason, we would expect a gap between the respondents' level of expectations and the actual outcomes. Likewise, the literature suggests that businesses of different sizes enjoy different chances of success. Small businesses are characterized by weaker economic support, making them more sensitive to market fluctuations, influences from the surrounding environment, and competition in the marketplace. Large businesses, by contrast, are more stable and have greater access to capital and resources; as a result, their chances of success are greater and their markets more secure. Accordingly, we would expect to find differences in the relative positions of small-, medium-, and large-sized enterprises in joint business projects between states.

Study Population and Data-Gathering Method

The study population consists of 72 men and women, all of them Israeli citizens, who are actively engaged in business. All of them have done business in Arab countries since this became a viable option with the signing of the peace treaties. The economic ties that they maintain are in a range of fields and industries.

The process of locating the subjects was carried out in several stages. During the first phase, lists were compiled of individuals who had applied voluntarily to one of the following:

a. Federation of Israeli Chambers of Commerce
b. Israel Export Institute
c. Kibbutz Industry Association

Out of these 3 lists, some 850 names were assembled of individuals who had expressed an interest in establishing business ties with partners in one of the Arab states. (It should be noted that not all of the 850 applicants actually carried their plans to fruition.) The three lists were cross-checked against one another and some of the names deleted, since certain applicants were found on more than one list.

During the second stage, the lists were further narrowed down through a screening process, the purpose of which was to reach the relevant population, namely, those actively engaged in business activity. Toward this end, we made telephone contact with all of the individuals on the list and posed an initial screening question: "Do you or your company presently maintain, or have you ever maintained, business ties with one of the neighboring Arab states?" The respondents were asked to choose from three possible responses. If their response was "no," the interview was concluded at this point and the name deleted from the list. If the interviewee's response was: "Yes, we maintained business ties in the past but no longer do so," the subject (interviewee) was asked to indicate the state in question and to explain briefly why the ties had been discontinued. The third response indicated ongoing business ties at the time of the study. It was this question that served to identify the study population. Interestingly enough, only 72 individuals out of the lists in our possession were identified as maintaining business ties with Arab states and, consequently, as meeting our criteria for the study. It should be noted that the study population is relatively small, making it possible to investigate the entire population without the need to use sampling techniques. The majority of the study population cooperated with the researchers.

The interviewers conducted a structured telephone interview with the subjects using a questionnaire that contained a range of questions on the nature of the business and the reasons for entering into a business venture in the Arab states. Also included were questions on the business background of the subject or of the company under his ownership, the personal background of the subject and his partners, the set of expectations from the venture itself and from the business and institutional environment, and questions on the accomplishments of the partnership and the extent of its success. The questionnaire formulated for the structured interviews was based on the research hypotheses and the theoretical rationale of the study. In addition, in-depth face-to-face interviews were conducted with a small number of subjects prior to the preparation of the structured questionnaire; these served as a pretest for the actual study.

Study Findings

Sociodemographic Characteristics of the Study Population

The literature dealing with entrepreneurship and business suggests that there are significant differences in the patterns of functioning and behavior in businesses of different sizes. The theory of dual economics and market segmentation refers to the economic market as being made up of two distinct sectors. In the center, we find the large, stable firms, and on the periphery, the small, competitive, and less stable ones. The small enterprises, which generally operate in the peripheral sector, are based on limited production and compete under difficult conditions, thereby reducing their power in comparison with the larger enterprises. Large enterprises, on the other hand, accumulate power by using mass-production technologies that allow them to corner a larger share of the market and perhaps even gain a monopoly on certain products. The differences between the sectors are also apparent in the firms' sources of capital and resources.

In light of the above, it was decided to examine whether it was possible to distinguish between businesses on the basis of size. Toward this end, the businesses in the study were divided into three categories according to size. Firms employing 56 workers or more were included in the group of large enterprises. Medium enterprises were those that employ up to 55 workers. And the third category, small enterprises, included businesses with only up to 10 workers.

Table 1 (below) enables us to examine the basic human-capital characteristics of the study population in accordance with the division by size. The findings indicate a strong similarity among the three categories, although one can still discern small differences. As shown in the table, the businesspeople in all three categories are male, Jewish, largely native-born Israelis, and married with children, in keeping with Israeli Jewish society in general.

In all three categories, the entrepreneurs are in their late 40's and are relatively well educated. There is, however, some difference in educational level between the categories, with the owners of the medium-sized enterprises being somewhat less educated than the others. Nevertheless, the vast majority (87.5%) have a high-school education or better (as compared to 95% of the owners of the large enterprises, who received a higher education).

There is also some difference between the level of professional experience of the business owners in the different categories. It should be emphasized that most of the entrepreneurs who are active in the Arab states are experienced businesspeople. But those with the most years of experience (an average of 19 years) are the owners of the small businesses, as compared with an average of 13.5 years for the owners of the large enterprises. It is noteworthy that some 50% of the small-business owners reported that they went into business directly out of school or army service, or straight from the kibbutz.

TABLE 1: <u>**Sociodemographic Characteristics of Entrepreneurs, by Business Size**</u>

(average, standard deviation)

	Large Enterprise	**Medium Enterprise**	**Small Enterprise**
Gender*	89.5%	81.3%	86.7%
Religion**	100%	100%	100%
Ethnic Origin:			
- Europe/Americas	10.5%	37.5%	26.7%
- Israel	73.7%	62.5%	66.7%
- Asia/Africa	15.8%	--	6.7%
Marital Status***	73.7%	87.5%	93.3%
Number of children	2.44 (1.26)	3.06 (1.88)	2.8 (1.21)
Age	47.74 (10.17)	(9.86)	48.10 (8.18)
Education****	94.7%	87.5%	92.0%
Employment Status Pre-Entrepreneurship:			
- Salaried Employee	33.3%	30.0%	50.0%
- Self-Employed	33.3%	10.0%	--
- Other	33.3%	60.0%	50.0%
Years of experience	13.53 (9.83)	17.38 (11.10)	19 (9.51)
TOTAL % **N**	38% 19	32% 20	30% 15

* Percentage of males. ** Percentage of Jews

. *** Percentage married. ****Percentage with post-secondary education or higher.

Sociodemographic Characteristics of Partners in Arab States

Table 2 (below) describes the basic characteristics of the Arab partners in the various business ventures. As indicated in the table, the partners from the Arab states, as expected, are all male. The vast majority are Muslim, although over 13% of the owners of the medium-sized enterprises are Christian. This fact is not surprising since the figures indicate that a high percentage of Palestinians in Jordan, most of whom are Muslim, have entered various industries and are engaged in business. Their domination in the economic arena places them in a position of relative power, earning them influence in the political sphere as well. An interesting finding shows that the partners from the Arab states are slightly younger in comparison with their Israeli counterparts. Like the Israelis, most of the Arab entrepreneurs have a post-secondary education.

Another point of interest relates to the degree of familiarity between the Israeli business partners and their counterparts in the Arab states. It emerges from the study that the partnerships were formed on the basis of a prior acquaintance between the partners, the average duration of the relationship being about 5 years. This figure was somewhat higher for the owners of the large enterprises and somewhat lower for the owners of the small enterprises.

TABLE 2: <u>Sociodemographic Characteristics of Arab Partners, by Business Size</u>

(averages, standard deviations)

	Large Enterprise	Medium Enterprise	Small Enterprise
Gender*	100%	100%	100%
Religion - Muslim - Christian	 93.8% 6.2%	 85.7% 13.3%	 100% --
Age	42.88 (7.86)	46.36 (9.17)	47.0 (6.27)
Education**	88.2%	100%	83.3%
Years of acquaintance with partner***	5.69 (4.87)	5.0 (3.98)	4.77 (1.79)
TOTAL %	54.8%	25.8%	19.4%

* Percentage of males.

** Percentage with post-secondary education or higher.

*** Prior to joint venture.

Nature of Ties between the Partners

The subjects were presented with a series of questions aimed at assessing the nature of the ties between the Israeli and Arab business partners. The questions tested the mode and frequency of communication, as well as the degree of warmth between the parties as expressed in face-to-face meetings and the language used in interpersonal communications. The findings, which are presented in Table 3 (below), indicate differences between the large enterprises and the small- and medium-sized ones in the nature of the communication between partners. Close to 60% of the owners of the medium-sized enterprises, and roughly one-third of the owners of the small enterprises reported daily telephone contact as compared to only 17% among the large firms. All of the business owners reported frequent use of faxes and other forms of electronic communication; however, the fax is more widely used by the medium-sized businesses while e-mails are favored by the small businesses, where personal contact is apparently considered more important.

All of the business owners reported having face-to-face meetings with their partners on an ongoing basis. The vast majority meet daily or at least several times per month. This finding indicates active cooperation in the running of the business and not just a passive investment in the partnership.

Nevertheless, in testing the degree of closeness between the parties, we found higher markers of closeness specifically among the large enterprises than among the small- and medium-sized enterprises. Whereas over 70% of the owners of large firms reported a high degree of closeness with their partners, 75% of the owners of the medium-sized firms selected “low to medium” for this indicator.

With regard to the language of communication, it emerges that all of the business owners—regardless of the size of their firms—conduct their business in English. Among the large enterprises, we find the mother tongues of the parties used as well: close to 20% communicate in Arabic and a small number in Hebrew. One may assume that the use of the mother tongue of one of the partners helps foster greater closeness between the parties.

TABLE 3: Nature of Ties between Israeli and Arab Partners, by Business Size

	Large Enterprise	Medium Enterprise	Small Enterprise
Frequency of Communication*			
Telephone:			
- Daily	17.6%	57.1%	33.3%
- Several times/month	52.9%	35.7%	46.7%
- Rarely	29.4%	7.1%	20.0%
Fax:			
- Daily	29.4%	42.9%	33.3%
- Several times/month	47.1%	50.0%	46.7%
- Rarely	23.5%	7.1%	20.0%
Electronic Communication:			
- Daily	42.9%	66.7%	72.7%
- Several times/month	50.0%	33.3%	27.3%
- Rarely	7.1%	--	--
Face-to-Face Meetings:			
- Daily	70.6%	84.6%	86.7%
- Several times/month	29.4%	15.4%	13.3%
- Rarely	--	--	--
Degree of Closeness			
- High to very high	70.6%	18.8%	42.2%
- Slight to medium	29.4%	75.0%	46.2%
- None	--	6.3%	7.7%
Language of Communication			
- English	75.0%	100%	100%
- Arabic	18.8%	--	--
- Hebrew	6.3%	--	--
- French	--	--	--
- Other	--	--	--
TOTAL %	34%	34%	31.9%

* Number of times.

Characteristics of the Joint Ventures

Table 4 illustrates differences in the nature of the businesses in accordance with their size. The findings indicate that the large enterprises were the first to be established, with the small- and medium-sized enterprises following suit. On average, the large firms had been in existence over 8 years at the time of the study, in contrast to the small businesses, which had an average age of less than 5 years. The bulk of the businesses, whether large or small, are located in the major cities—the capitals (Amman and Cairo), and other cities such as Irbid, Jordan. Most of the manufacturing companies target their goods equally at the local market, the Israeli market, and the global market.

TABLE 4: Characteristics of the Joint Ventures

	Large Enterprise	Medium Enterprise	Small Enterprise
Years in existence	8.64 (10.02)	5.44 (5.25)	4.75 (1.58)
Location of business			
- In capital city	42.6%	23.1%	33.3%
- In other large city	30.8%	30.8%	50.0%
- Other locale	23.1%	46.2%	16.7%
Target market			
- Local Arab market*	37.5%	37.5%	41.2%
- Israeli market	34.4%	31.3%	35.3%
- Export to third country	28.1%	31.1%	23.5%
TOTAL %	49.2%	24.6%	26.2%

It should be emphasized that the figures in our possession on the size of the investment by the entrepreneurs are extremely limited. Obviously, the investment in the large enterprises was significantly higher than that in the smaller businesses; however, we were able to obtain figures from only 20 firms, making it difficult to draw reliable conclusions.

Motivation to Establish the Business

As part of the study, we attempted to explore the motivations of Israeli entrepreneurs for establishing a business in the Arab states, taking into account the potential and actual difficulties confronting the entrepreneurs. First, we investigated the source of the partnership proposal. Our findings in this regard were unequivocal, as indicated in Table 5 (below): in the overwhelming majority of cases, for large and small enterprises alike, the idea to establish a business in the Arab states came from the Israeli party. In only a small minority of cases (22% of the medium-sized enterprises, 8% of the large ones, and 11% of the small businesses) did the initiative come from the Arab partner.

TABLE 5: <u>Originator of Idea to Establish the Business</u>

	Large Enterprise	Medium Enterprise	Small Enterprise
Israeli partner	92.3%	77.8%	88.9%
Arab partner	7.7%%	22.2%	11.1%
Third party	--	--	--

In light of the above, an examination of the Israeli interest in setting up a joint venture in the Arab states can prove instructive. Accordingly, we attempted to assess what factors led to the initial idea to establish the business. The subjects were presented with a long list of factors that we considered likely to prompt a businessperson to set up a joint venture. The subjects were asked to rank these considerations in order of importance. The motivating factors presented to the subjects fell into three categories: first, economic/business considerations such as: profitability, expansion, opportunities to open up new markets; second, interests related to manpower; and third, ideological concerns, i.e., a desire to contribute toward improving relations between Israel and its Arab neighbors. The findings are presented in Table 6 (below):

TABLE 6: Breakdown of Motivations for Establishing a Business in Arab States

	Large Enterprise	**Medium Enterprise**	**Small Enterprise**
Profitability			
- Important to highly important	88.9%	93.8%	80.0%
- Somewhat important	11.1%	6.3%	6.7%
- Slightly to very slightly important	--	--	13.3%
Opening up new markets			
- Important to highly important	94.1%	87.5%	93.3%
- Somewhat important	5.9%	--	--
- Slightly to very slightly important	--	12.5%	6.7%
Business expansion			
- Important to highly important	88.2%	87.5%	85.7%
- Somewhat important	5.9%	--	7.1%
- Slightly to very slightly important	5.9%	12.5%	7.1%
Government assistance			
- Important to highly important	11.1%	18.8%	15.4%
- Somewhat important	11.1%	18.8%	--

- Slightly to very slightly important	77.8%	62.5%	74.5%
Gaining business experience			
- Important to highly important	76.5%	50.0%	50.0%
- Somewhat important	5.9%	31.3%	7.1%
- Slightly to very slightly important	17.6%	18.8%	42.9%
Availability of manpower			
- Important to highly important	30.8%	31.3%	36.4%
- Somewhat important	7.7%	18.8%	--
- Slightly to very slightly important	61.5%	50.0%	63.6%
Cost of labor			
- Important to highly important	30.8%	31.3%	60.0%
- Somewhat important	7.7%	18.8%	--
- Slightly to very slightly important	61.5%	50.0%	40.0%
Quality of labor			
- Important to highly important	41.7%	43.8%	30.0%
- Somewhat important	8.3%	12.5%	30.0%
- Slightly to very slightly important	50.0%	43.8%	40.0%
Contribution to peace process			
- Important to highly important	80.0%	43.8%	42.9%
- Somewhat important	6.7%	25.0%	14.3%
- Slightly to very slightly important	13.3%	31.3%	42.9%

From the findings presented above, we can see that direct financial interest is an extremely important factor across all types of businesses. The vast majority of owners of the large, medium and small enterprises ranked profitability, access to new markets, business expansion, and added businesses experience as being highly important to them. It is interesting to note that the government assistance offered for the establishment of joint ventures was not seen by the entrepreneurs as a significant factor, with most ranking it as slightly to very slightly important. Unlike the availability of manpower, which does not constitute a significant factor, the cost of manpower ranks high in importance among roughly 60% of the small-business owners. Although we would have expected the manpower factor to rank high in significance, the findings do not support this hypothesis.

The availability of skilled manpower in the Arab states does not surpass that of Israel; consequently, this is apparently not a significant consideration for entrepreneurs in deciding to establish a joint venture. Nevertheless, the lower cost of the available labor may offer some economic advantage, although this is not of prime importance, particularly for the owners of large- and medium-sized enterprises.

One of the more fascinating findings relates to the importance of the ideological factor in terms of the entrepreneur's contribution to the peace process. As shown in the table, 80% of the owners of the large businesses rank this factor as highly important. This may indicate a strong sense of social obligation on the part of the large firms, which see themselves as part of the economic center and hence obligated to take steps to promote the general economic interests of Israel and not only the narrow interests of their own firm. At the same time, it is also possible that this finding represents an attempt to fulfill what they perceive to be the expectations of the researchers with regard to large enterprises, by presenting an ideological position that expresses strong social obligation beyond the narrow interests of profitability.

In contrast to the large firms, a much lower percentage (roughly 40%) of the owners of the smaller businesses indicate the ideological factor as ranking high in importance, with a similar percentage admitting that contributing to the peace process is not a particularly important factor for them.

In the course of the study, we also attempted to explore the gap between the potential difficulties anticipated by the entrepreneurs prior to setting up their ventures and the actual problems encountered by them after their businesses were already in operation. Table 7 (below) presents a breakdown of the factors considered to pose potential difficulties.

As expected, the situational factor of the region's geopolitical context stands out in particular. A consensus existed among most of the business owners, regardless of the size of the firm, that regional instability was liable to have a significant negative effect on the functioning of their businesses. Indeed, they were proven right, with the outbreak of the Palestinian *intifada* in September 2000. The undermining of regional security, with its impact on personal safety, makes it extremely difficult to maintain communications and handle ongoing management of the businesses, and certainly harms the chances of developing new joint ventures between the parties.

With regard to other factors, there are noticeable differences among the three business categories. A higher percentage (50% and 43%, respectively) of owners of the small- and medium-sized enterprises expressed concern that the nature of the local infrastructure was liable to pose a problem. Over 40% of the large-business owners, and a higher proportion (50%) of those with small businesses, referred to probable difficulties as a result of opposition from political bodies to the very act of establishing such ventures. Both Jordan and Egypt have a strong political Opposition movement that identifies with the Palestinians and opposes ties of any kind with Israel. These forces have a decisive effect on relations between the countries, and are seen by the entrepreneurs as affecting the chances of success of any Arab-Israeli joint venture.

The table also points to a fear of media overexposure, primarily among the large businesses (roughly 47%), which attach greater importance to this issue than do the small and medium enterprises (14.3% and 25%, respectively).

TABLE 7: Breakdown of Potentially Problematic Factors

	Large Enterprise	Medium Enterprise	Small Enterprise
Nature of workforce			
- Important to highly important	25.0%	37.5%	30.8%
- Somewhat important	18.8%	6.3%	23.1%
- Slightly to very slightly important	56.3%	56.3%	46.2%
Nature of local infrastructure			
- Important to highly important	25.0%	50.0%	42.9%
- Somewhat important	18.8%	25.0%	21.4%
- Slightly to very slightly important	56.3%	25.0%	35.7%
Local media			
- Important to highly important	27.8%	37.5%	50.0%
- Somewhat important	11.1%	25.0%	7.1%
- Slightly to very slightly important	61.1%	37.5%	42.9%
Cultural differences in media			
- Important to highly important	27.8%	43.8%	35.7%
- Somewhat important	11.1%	31.3%	14.3%
- Slightly to very slightly important	61.1%	25.0%	50.0%

Regional political instability - Important to highly important - Somewhat important - Slightly to very slightly important	 66.7% 22.2% 11.1%	 75.0% 12.5% 12.5%	 66.7% 20.0% 13.3%
Opposition of political bodies - Important to highly important - Somewhat important - Slightly to very slightly important	 44.4% 11.1% 44.4%	 40.0% 20.0% 40.0%	 53.3% 13.3% 33.3%
Media overexposure - Important to highly important - Somewhat important - Slightly to very slightly important	 47.1% 5.9% 47.1%	 25.0% 6.3% 68.8%	 14.3% 35.7% 50.0%
Government intervention - Important to highly important - Somewhat important - Slightly to very slightly important	 33.3% 11.1% 55.6%	 31.3% 6.3% 62.5%	 28.6% 7.1% 64.3%
Problem attracting investors - Important to highly important - Somewhat important - Slightly to very slightly important	 31.3% 12.5% 56.3%	 6.7% -- 93.3%	 37.5% 12.5% 50.0%
Time needed to implement project - Important to highly important - Somewhat important - Slightly to very slightly important	 62.5% 12.5% 25.0%	 37.5% 31.3% 31.3%	 70.0% -- 30.0%

Table 8 (below) examines the correlation between the level of expectations of the entrepreneurs and developments in reality. The figures presented in the table represent the correlation between the advantages expected to arise from setting up a business in an Arab state (as measured by a series of variables) and the assessment of the actual results following a period of business activity.

TABLE 8: Correlation between Success of Joint Venture and Prior Expectations

Potential problem \ Actual situation	Profitabilit	Availability of labor	Cost of labor	Quality of labor	Contribution to peace	New markets	Business expansion	Gov't assistance
Profitability	0.154	0.070	0.093	0.096	0.100	0.148	0.011	0.118
Availability of labor	0.010	0.317	0.390	-0.227	0.099	0.059	-0.083	0.084
Cost of labor	0.053	0.122	0.322	-0.367	0.111	0.003	-0.102	0.050
Quality of labor	-0.144	0.161	0.247	0.040	0.143	-0.013	0.103	0.183
Contribution to peace	-0.278	-0.182	-0.182	-0.182	-0.275	-0.207	-0.357	-0.255
New markets	0.073	-0.036	-0.020	0.268	-0.156	0.161	-0.059	-0.042
Business expansion	0.409	0.124	0.255	0.450	0.098	0.436	0.353	0.204
Gov't assistance	0.102	0.135	0.080	-0.002	0.174	0.123	-0.161	0.153

As shown in Table 8 (above), the correlation between the level of expectations and the extent to which they were realized is rather low. Nonetheless, the findings indicate a correlation of over 0.32 for availability and cost of labor, as well as business expansion, a significant figure given the limited size of the study population. However, there is noticeable disappointment with the extent of the contribution to the peace process, as shown in the inverse relationship between expectation and result.

Disappointment with the quality of labor is also evident, primarily in comparison with the expectations for this variable but certainly with respect to profitability as well. As we saw earlier, the expectation of profitability is one of the most significant motivating factors in the decision to set up a business. The low correlation observed between expectations and actual outcomes conforms with the subjective assessment of the subjects regarding the success of their joint venture, offering evidence of shattered hopes among the entrepreneurs. Table 9 (below) presents the figures:

TABLE 9: Subjective Assessment of the Venture's Success

	Large Enterprise	**Medium Enterprise**	**Small Enterprise**
Very high	11.1%	25.0%	20.0%
High	11.1%	--	13.3%
Medium	55.6%	25.0%	53.3%
Low to very low	22.2%	50.0%	13.4%
TOTAL	100%	100%	100%

The findings indicate that only 22% of the large-business owners ranked their level of success as “high” to “very high.” A similar percentage reported failure (“low to very low”), while the remainder indicated a medium level of satisfaction. By way of comparison, 50% of the medium-sized enterprises explicitly reported failures—obviously a significant proportion. It must be recalled that these are subjective statements by the entrepreneurs.

Conclusions

The objectives of our study were as follows: first, to characterize the Israeli entrepreneurs who decided to launch joint business ventures with their counterparts in the Arab states; second, to understand the motivating factors behind their decision; and third, to explore the achievements of these enterprises.

In accordance with our first hypothesis, we found that the primary motivation prompting the Israeli entrepreneurs to embark on a business venture in the Arab countries was the strong potential for business development and high earnings. Most of the entrepreneurs who set up businesses, whatever the size, were well-educated individuals with high human capital, familiarity with several languages, and abundant experience in business. The majority had run, or are running, businesses in Israel and saw entrepreneurship in the Arab states as an excellent opportunity to expand their business activities.

A number of the entrepreneurs, however, were hard hit by the present political situation, with the consequence that the results did not live up to their original high expectations. Their disappointment stemmed from several factors, most of them beyond the control of the entrepreneurs themselves. As predicted, though, the findings pointed to differing levels of achievement when comparing the large-, medium- and small-sized enterprises and, even more so, the labor-intensive businesses as opposed to those less dependent on manpower. The study demonstrated clearly that, while availability and quality of the workforce were not a major consideration in setting up a business in the Arab states—since Israel has no shortage of qualified, available manpower—the wage costs of an Israeli worker are higher than those of a worker in the Arab states. Consequently, global competition among the large, labor-intensive firms, particularly in the textile industry, is liable to prevent the business from being profitable if it is dependent on expensive manpower. Cheap manpower lowers production costs, making it easier to compete in the international marketplace. As Israeli wages continued to rise, and government subsidies could no longer maintain the companies, the decision to produce goods in the neighboring Arab states became more attractive for Israeli manufacturers. And in fact, several Israeli light industries and textile companies set up factories in Jordan. It should be noted, however, that most Israeli joint ventures with Arab states are conducted in strictest confidence, particularly in the case of Jordan with its large Palestinian population.

The subjects expressed grave concerns regarding opposition by anti-Israeli forces to such joint business ventures. In Jordan, where the majority of the population is Palestinian, there have been strong objections raised to ties with Israel amid fears of an Israeli economic takeover of Jordan. Accordingly, one of the outstanding factors indicated by the entrepreneurs as a significant potential difficulty is the political instability in the region. Concerns of media overexposure, as expressed in the study, also stem from criticism as a result of the transfer of some Israeli production to Jordan—a step which takes away jobs and employment opportunities from Israeli workers.

It should be noted that the study's findings were gathered prior to the outbreak of the present *intifada* in September 2000. Accordingly, there is reason to continue exploring the repercussions of the deterioration in Israeli-Arab relations as it affects the businesses that represent the best hope for progress toward regional normalization.

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