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Business under Fire

How Israeli Companies Are Succeeding in the Face of Terror -- and What We Can Learn from Them

Dan Carrison • AMACOM © 2004 • 256 pages

Politics / Global Risks / Terrorism

Take-Aways

- Israeli corporate executives believe their companies have had to become stronger as a result of operating in a terrorist environment.
- They discovered that demonstrating business stability in the face of uncertainty conveys confidence to their employees and customers.
- Israeli companies fight the economic effects of terrorism by re-engineering their firms to remain productive and to revitalize their corporate cultures.
- Long-term planning becomes useless in a crisis situation. Always have alternatives.
- In a crisis, do what is best for your company, employees and customers.
- To maintain performance in a crisis, fully inform your workers. Foster high morale.
- During a crisis, there is no such thing as a competitor. Everyone helps each other.
- Due to military service and shared societal values, Israel has a close-knit culture. Almost everyone serves in the army, which teaches team building and leadership.
- Israeli investors believe in their managers' abilities, not in long-term projections.
- When global investors could not come to Israel, executives traveled to reassure them that Israel remained open for business.

Recommendation

Author Dan Carrison deserves credit for writing an insightful book about an ongoing modern tragedy. The Palestinian terrorist attacks, which resumed in Israel in 2000, present a critical lesson for all twenty-first century businesses. Working through terrorist attacks aimed at killing civilians and disrupting normal life actually has forced Israeli executives to learn new ways of operating their businesses. Carrison interviewed leaders in various industries (airlines, hotels, high tech, advertising) who have worked to keep their businesses open, their employees safe and their customers satisfied. He actually found that many companies were revitalized. While the topic of living with danger is daunting, many Israelis have adopted better business tactics as a result of economic and physical terrorism. Oddly enough, this extreme situation leads to an uplifting business story. As a result, *getAbstract.com* recommends this very interesting book to CEOs, business owners and corporate strategists, especially in the hospitality and service industries. It will put your troubles in perspective and will help you prepare to cope with any type of crisis.

Summary

Resourcefulness in the Face of Terror

Unlike most other countries, Israel has never enjoyed a period of prolonged peace. Since its creation in 1948, Israel has suffered a series of military and economic conflicts. Starting in October 2000, Palestinian terrorists resumed the intifada, a series of calculated attacks on Israeli civilians and business that were aimed at disrupting normal life. As a result of these terrorist attacks, which coincided with the decline in the high technology Internet services industry in both the U.S. and Israel, the Israeli economy went into a steep decline.

When a country undergoes a calculated series of terrorist incidents, assaults that show no sign of diminishing, a negative chain of events unfolds. In Israel's case, the U.S. State Department issued a travel advisory, which meant that corporate travel insurance policies would not cover many Americans who visited the country. As a result, corporate tourism evaporated. The bad news soon spread to recreational and religious tour groups and to individual travelers who opted to visit other locations.

"If you need a team of software or hardware engineers to solve a problem better than anyone else - without ever giving up - faster and cheaper than anyone else, you can't do better than Israelis."

As the cancellations of tours and airline flights mounted, the Israeli tourism industry adopted new survival tactics. First, it accepted the reality that the tourists were not coming back anytime soon. It then encouraged Israelis to visit other parts of their own country. This produced a gradual increase in hotel occupancy rates, but only on weekends. It was not a complete solution. The Tourism Ministry then focused on inviting its natural external constituency - American Jewish and evangelical Christian groups - to visit the country.

"We are driven to show the world how good we are, especially during times of crises."

Secondly, the tourist industry was forced to abandon its TV campaign. Instead, it began to rely heavily on word-of-mouth advertising, which has higher credibility. People in Israel's hospitality industry encouraged those tourists who did visit to tell others that their stay was safe, without any adverse incidents, and that Israeli society was still operating.

Before October 2000, almost 2.5 million tourists visited Israel each year. After the start of the terrorist attacks in Jerusalem and Tel Aviv, hotel occupancy rates dropped by more than half. Occupancy has not returned to pre-October 2000 levels, but many hotels have found ways to make profits despite the sharp decline. However, Israeli hotel managers have been forced to frame their operations very differently.

"The terrorist is, after all, one's competitor from hell, who is out to destroy one's capacity to operate a bus company or a hotel, restaurant, airline or tourist agency."

As rates fell, hotels with 200 rooms were forced to operate as 100-room hotels. This meant a change in organizational structure, so hotel managers downsized staff and reassigned duties. The crisis atmosphere meant that once changes were made, they had to be explained to the remaining employees along with the message that no more layoffs would happen. This gave the retained staff members a new sense of purpose. Interestingly, while the number of workers often was reduced dramatically, guests did not report any decline in service.

Acting from Strength

While the same dismal conditions affected the entire tourism industry, each local hotel group acted independently to cope with dropping occupancy rates, according to its strengths, budgets and market position.

"In an environment where absenteeism is common because of terrorist alerts (the frequent cause of roadblocks and extensive delays) or actual attacks, a company must have 'hot backup'."

The Dan Hotels Corporation, Ltd., a large Israeli chain, operates 13 hotels with 3,200 rooms. The hotels actually managed to stay open, in some instances with 10% occupancy. The company made severe staff cuts, including closing whole departments. Management sliced work hours to reflect the hotels' occupancy and reduced salaries across the board. For instance, employees at one Dan hotel that only had a 15% occupancy rate took home only 15% of their normal salaries.

The Hilton Tel Aviv took a different approach, and did not reduce room rates or cut employee salaries. Instead, it kept prices firm to help offset the costs of a \$60 million renovation that was completed before the intifada. The hotel offered staff members a few choices of tactics it could use to control the budget and remain in operation. Employees reviewed the alternatives and opted for a plan that kept their salaries at pre-terrorist attack levels, but reduced their benefits.

"Much can be learned from an accomplished business leader who finds his back against the wall."

To keep employee productivity high, the Hilton increased its in-house training and awarded trips to employees who won service awards. As a result, Hilton employees said they were very satisfied with their working conditions, even as hotels around them further reduced staff and vacancy rates skyrocketed.

“Managers should not shy away from helping to promote a healthy defiance in the workplace, as opposed to a philosophical ‘win some, lose some’ acceptance of fate.”

The David Intercontinental Hotel reduced its staff by 50% within three weeks of the start of the terrorist attacks. However, when it cut employees, it made every effort to keep the junior managers who had apprenticed at the hotel, since these up and coming trainees represented an investment in the hotel’s future. The David began outsourcing key hotel functions, a first in the Israeli tourism industry, but decided to add to its sales force. In April 2001, although its occupancy rate was just 17%, the hotel posted a \$1,000 profit.

Despite economic hardship, these hotels managed to provide memorable customer service. One American guest checked in late at a Dan Hotel and awoke very early due to jet lag. The hotel telephone operator noticed that the guest had begun making phone calls long after all the hotel’s services were closed. The operator notified room service and the off-duty staff sent up cake and coffee. The guest later said that although she has stayed in hotels worldwide, this little refreshment was one of her most memorable hotel service experiences.

“By not coming to the assistance of a competitor damaged by (an attack), one is implicitly helping the terrorists.”

To get the most from employees during tough times, Dan Hotels also provided small incentives, such as country outings, children’s scholarships and minor bonuses. This prompted employees to submit money-saving ideas and to provide quality service.

Israeli hotels made drastic cuts and changed their procedures, but they worked to be sure that customers would not notice. To do better in the marketplace, without engaging in price wars, some four-star hotels even invested precious capital in major remodeling projects so they could compete against five-star hotels. Although the terrorist attacks, the Iraq war and September 11 reduced the number of tourists they served, Israeli hotel managers agreed that they learned to become more efficient as a result of crisis conditions.

The Egged Bus Company

The Egged Bus Company is Israel’s largest, with 4,000 buses making some 20,000 stops daily. Egged has been the target of thousands of terrorist attacks. The terrorists focused on Egged and not any of its competitors in a calculated way. This essentially conveyed the message that Egged’s customers were being targeted specifically for murder.

“(If there is) more terror in America, it won’t be long before our companies will assure customers ‘the Israeli way’.”

As a result of numerous deadly attacks, Egged suffered a decline in rider traffic conservatively estimated at 10%. To manage such a severe drop in a low margin business, the company projected a zero growth

rate in 2004. However, a local bond-rating agency allowed it to issue bonds at a low rate. So, despite its flat earnings picture, the company is planning to grow by starting a trucking and taxi company, as well as expanding into a mass transit system in Tel Aviv.

Egged, an employee-owned co-operative, has also reached out to its workers. To help people cope with the stress and the physical attacks, the company hired a team of psychologists to counsel drivers and managers. A full-time psychologist and a social worker counsel passengers and drivers who have been in terrorist attacks. Their jobs involve hospital visits, rehabilitation, long-term therapy and dealing with people affected by post-traumatic stress. Executives and managers participate during emergencies by visiting hospitals and assuming driving duties.

“Because of the fluidity of the battlefield situation, the moment must be seized.”

Executives routinely visit bus stops and places where drivers congregate. Even Egged’s board of directors gets involved. Some directors actually drive the buses on a regular basis, while others ride buses to work. To try to recover monetary compensation after the terrorist attacks, Egged even sued the Palestinian Authority for damages.

“We’ll never go back to the old way. The intifada has been a school for us.” [- Raphy Weiner, Israeli hotel manager]

Passengers who were injured by terrorist attacks against the buses have not filed class-action suits against the Egged Bus Company. This contrasts with what happened in the United States after September 11. U.S. lawyers filed class action suits against the airlines, Boeing, the security firms for the airline terminals where the terrorists boarded the planes and the owners of the World Trade Center. In many cases, terrorists achieve part of their goal of causing economic chaos via the lingering after effects of their attacks, including massive lawsuits against the people and companies who were among their initial targets. That happened in the U.S., but it has not happened in Israel.

Cultural Similarities

Israel has a number of cultural characteristics that make it adept at dealing with terror, including social cohesiveness and mandatory military conscription. By law, everyone (with a few religious exceptions) enters the army at age 18. There are no college deferments. Everyone goes - male and female. Men serve for three years and women serve for two years. After their tours of active duty, all men serve one month per year as members of the reserves until age 45 for members of combat units or age 55 for those in support units.

This military arrangement places some unique constraints on businesses, since it affects executive and line personnel alike. Reservists can be called up at any time. As a result, corporations in all industries have developed contingency plans and are always prepared for the unexpected. In many cases, employees are trained for two jobs. One job is their specialty and the second is a job they can handle if there is a terrorist attack or if a co-worker is called into the army, perhaps to cordon off a bombed area and search for terrorists, or to assume some other duty. Such things can happen on short notice, often 24 hours. This dual training has additional benefits. Employees who are trained for two jobs have a better idea of how the overall company works. They can see how their job complements the work of the person they are able to replace.

Executives who have gone through numerous crises and call-ups report that their companies continue to operate and to meet their deadlines.

“The lessons of three years of active duty, reinforced every single year for at least 30 days of more active duty, for virtually the entire span of one’s business career, are apt not to be forgotten.”

Israel’s societal structure also helps it cope with the economic and emotional disruption of the intifada. Israel is a "group-oriented" culture. Childhood friends commonly remain close their entire lives. As a result, groups of friends take responsibility for each other as they grow up, move through the military together and then go on to prove themselves in the outside world. Since Israel is such a small country (the size of New Jersey) and so close knit, executives and managers often know each other well. Networking is easy. In terms of hiring employees or selecting suppliers, this means that due diligence and information gathering are fast and accurate. The process of finding out about someone’s background and qualifications usually takes a phone call or two. After that, you can still call in the human resources and legal departments.

“The military thinks instead in win-lose terms, and such a philosophy of life does not accept defeat graciously.”

These factors put competition into a new light. Israeli executives report that there is no such thing as a competitor during a crisis. Everyone is a citizen. Business managers all share a common goal: protecting their families, employees and investors. For instance, whenever a hotel was involved in a bombing, the other hotels shared resources, information and assistance. Industry trade associations also acted as focal points for sharing solutions.

In industries that relied on outside investors and worldwide customers, executives accepted the reality that people were afraid to visit their Israeli factories and offices. Instead, Israeli managers traveled to assure both investors and customers that business was still being done, deadlines were being met and Israel remained open for business.

About the Author

Dan Carrison is a partner in Semper Fi Consulting and is a frequent public speaker. A former journalist, he is the author of *Deadline!: How Premier Organizations Win the Race Against Time* and the co-author of *Semper Fi: Business Leadership the Marine Corps Way*. Carrison lives in Los Angeles, California.



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