The Evolution of The Israeli Banks as Political Actors:

An Analysis of their Nonmarket strategy in the Parliamentary and Regulatory Arenas

Thesis for the degree of “Doctor of Philosophy”

By Keren Borenstein-Nativ

Submitted to the Senate of the Hebrew University of Jerusalem

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This work was carried out under the supervision of

Prof. David Levi-Faur

ABSTRACT

Over the past thirty years, since the beginning of the neoliberal reforms, the increasing complexity and volatility of the competitive environment has contributed to the development of proactive political strategies by firms, which intentionally enter the political arena in an attempt to influence the construction of public policies, regulations, and laws to their benefit, thus becoming *political actors*. As a result, the body of knowledge regarding corporate political activity (CPA) provides a broad framework for understanding the political life and behavior of firms and continues to grow, reflecting an increasingly complicated and varied business environment. This broad literature, however, does not refer to the political behavior of firms that enjoy a structurally privileged position.

The banking sector often occupies an important "structural" position in capitalist economies, and the 2008 global financial crisis sharpened our understanding that banks and other financial firms constitute a different and unique sector. Despite the renaissance of business power theories in the aftermath of the crisis, this literature has barely addressed how structural elements influence the evolution of firms as political actors. Rather, it has narrowed a firm's political activity to the notion of *instrumental power*, which does not encompass the full range of dimensions of political activity. Furthermore, this body of knowledge does not refer to the influence of the reciprocal dependency between the state and the banks, in capitalist economies, on the evolution of the banks as political actors. After all, in no other sector are the reciprocal dependence and the potential consequences of an individual firm's collapse as far-reaching and unforeseeable as in the financial sector. This reciprocal dependency calls for a closer dialogue between the two extensive bodies of knowledge – CPA and business power – with respect to the role of the state in this evolution.

This dissertation aims to bridge these theoretical gaps by examining the evolution of the Israeli banks as political actors through a longitudinal study spanning three decades, while empirically contributing to the Israeli political economy literature. This dissertation will attempt, *first,* to handle the difficult-to-capture dependent variable of "evolution of the banks as political actors"; *second*, to deepen our knowledge and understanding of the nexus between the privileged position of banks in the economy and their evolution as political actors; and *third*, to identify the ways in which the key banking regulators protect the banks' privileged position, and further understand how this protection impacts the evolution of the banks as political actors.

The first paper, entitled ***Structural Power, State Capacity and Social Protest: The Case of Israeli Banking*** (under review at a peer-reviewed journal), explores the battles over banking fee reforms in Israel and the influence of the "noisy" politicization of the 2011 Socioeconomic Protest to demonstrate that a state actor can, by using its *bureaucratic capacity*, continue to cling to its dominant ideas and protect business's privileged position even in a highly politicized context. The empirical findings suggest that, given the protection the banks have received in the regulatory arena in order to maintain their financial stability, this has influenced them as political actors. The paper, which is based on an in-depth inductive process-tracing spanning three decades (1990-2018), analyzes (N=30) protocols of parliamentary hearings and (N=40) private bills. I also conducted several semi-structured interviews (N=10 not coded).

In the second paper, entitled ***The (Dis)advantages of a Privileged Position: The Case of Banks' Government Affairs Departments*** (under review at a peer-reviewed journal), I further explore the ways in which the banks' privileged position influences their political activity by looking at the embeddedness of their Government Affairs Departments (GADs) in the corporate structure. I conducted a preliminary study, using a cross-sectoral comparative analysis and process-tracing from 1998 to 2018, that analyses how GADs are created and embedded in the Israeli banking sector, and found the banks' GADs' infrastructure to be unstable. The findings demonstrate that the banks have not embedded their GADs in their corporate structure, as compared to the non-banking sectors. The paper further finds that given the banks' privileged position in the regulatory arena, it was unnecessary for them to embed a consistent mechanism of interaction with their regulators.

The third paper, entitled ***Financial Governance in a Neoliberal Era: Controlling the Banks by Controlling their Managerial Recruitment Sources*** (accepted for publication at the *Journal of Banking Regulation*), examines the factors that affect the recruitment sources (RS) of the two most senior management functions in banks, the chairperson of the board and the chief executive officer. On the basis of an in-depth qualitative study, the paper delineates the RS of the chairpersons and CEOs, from the inception of the State of Israel in 1948 to 2019, using an original typology and dataset of the professional profile of all 87 former and incumbent Israeli banks' chairpersons/CEOs. The findings reveal that the main banking regulators affect the RS types of the banks' senior managers through both *formal* and *informal* measures to ensure their financial stability in the long run.

Taken together, the three papers suggest that the main banking regulators have played a critical role in the evolution of the Israeli banks as political actors in both arenas – the regulatory and the parliamentary -- through the ways in which they maintain the banks' financial stability. This creates an important nexus between CPA research and the business power literature in respect to the state capacity approach.

האוניברסיטה העברית בירושלים
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A statement on authorship and dissertation components

Dear committee members,

I hereby declare that my doctoral dissertation entitled "The Evolution of The Israeli Banks as Political Actors: An Analysis of their Nonmarket strategy in the Parliamentary and Regulatory Arenas", is written in the form of compilation of articles (ASSUFA).

All three articles of the dissertation were written without any co-authors. The first article, entitled "Structural Power, State Capacity and Social Protest: The Case of Israeli Banking Fees", is currently under review at a peer-reviewed journal. The second article, entitled "The (Dis)Advantages of a Privileged Position: The Case of Banks' Government Affairs Departments", is currently under review at a peer-reviewed journal. The third article, entitled Financial Governance in a Neoliberal Era: Controlling the Banks by Controlling their Managerial Recruitment Sources", was accepted for publication at the peer-reviewed *Journal of Banking Regulation*. In all papers, I developed the theoretical models and the research design, managed the collection of data, conducted the empirical analyses and wrote the manuscripts. Prof. Levi-Faur has assisted throughout all these stages by providing me with critical comments.

The three articles are accompanied by an introductory chapter in which I lay down the motivation and aims of the dissertation, explain the relationship between the abovementioned three chapters, position them in the broader context of the corporate political activity literature, and discuss their methodological approach. The dissertation also includes a concluding chapter in which I summarize the main findings and contributions of the dissertation.

Sincerely,

Keren Borenstein-Nativ

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INTRODUCTION

In December 2016, a drama occurred in the Knesset's Reform Committee during a marathon session regarding the Strum Committee bill, which called for enhanced competition in the consumer lending sector of the credit market – chiefly by forcing the two largest banks (Hapoalim and Leumi) to sell their credit-card companies (Banking Competition Committee, 2016). The discussions reached a boiling point when the Supervisor of the Banks, Hedva Ber, left the hearing after Member of the Knesset (MK) Erel Margalit upbraided her, saying that the Bank of Israel serves the banks and not the public. Shortly afterward, another conflict erupted between the Bank of Israel and Knesset members regarding one of the bill's sections. As a result, the Reform Committee Chairperson MK Eli Cohen said that "if the Bank of Israel continues living in a bubble and thinking that it is above the law, we will strip it of its responsibilities." The Bank of Israel representatives left the hearing in protest (Avissar, 2016).

As illustrated by the above example, the two main arenas in which the Israeli banks operate are characterized by polarized policy schools: at one end of the spectrum stands the *Knesset* (the Israeli parliament), which has constantly prioritized consumers' interests. At the other end stand the main financial regulators: the Bank of Israel (BoI), the Israeli central bank, which has accumulated formidable institutional and political power and autonomous capacities (Liviatan & Barkai, 2007; Maman & Rosenhek, 2011); and the Banking Supervision Department (BSD) – a statutory unit within the BoI, whose main mandate concerns regulation of the banks' financial stability, i.e., it lies at the root of the BSD's organizational identity. In this complex situation, the banks were unable over the last decade to block or change reforms altogether without the protection of the BoI, despite their privileged position in the Israeli economy.

In order to deepen our understanding of banks as political actors, it is important to explain the process that big firms have gone through in recent decades. Big firms have always had to pay careful attention to the political environment within which they operate. However, since the substantial reforms of the postwar Keynesian welfare state – often referred to as "neoliberal" reforms – the increasing effect of government policies on the competitive environment has prompted firms to become involved in political activity, invest more in their political capacities, and develop proactive political strategies (Lawton & Rajwani, 2011; Willman, Coen, Currie, & Siner, 2003). The growing complexity and dynamics of their environment has taught these firms that old methods of understanding and existing practices of response are no longer sufficiently effective. They needed to increase and institutionalize their capacities as *political actors*, and political activity has been recognized as one of the most important spheres in a corporation's *nonmarket strategies* (Coen, 1997).

Does this also apply to the case of banks? After all, the banking sector often occupies an important "structural" position in capitalist economies, given its indispensable role in sustaining productive sectors throughout the economy and providing the vital liquidity and capital which any modern economy needs to "breathe," function and grow (A. Busch, 2009; Kalaitzake, 2017). Banks attract citizens' savings in the form of deposits, offer means of payment for goods and services, and finance the development of business (Mullineux, 2006). Therefore, in no other sector are the reciprocal dependence and the potential consequences of an individual firm's collapse as far-reaching and unforeseeable as in the financial sector (Fairfield, 2015, p. 422).

Therefore, to better understand the "political life" of firms that enjoy a privileged position, this dissertation delves into the evolution of the Israeli banks as political actors. Israel's concentrated banking system consists of five banks that hold 94% of the system's assets in a duopoly market structure, with the two largest banks (Bank Hapoalim and Bank Leumi Le-Israel) controlling 55% of the market, and three medium-sized banks (Israel Discount Bank, Mizrahi-Tefahot Bank, and First International Bank of Israel) holding the remaining 45% (Bank of Israel, 2019, p. 3). The banking system dominates most aspects of Israeli financial activity. In this research the banks' evolution as political actors is traced through both their political activity and their interactions with the main actors in the regulatory and parliamentary arenas, in light of these arenas' polarized policy orientations, which has also led to conflicts between the nonmarket stakeholders. The timeframe of the research is from the early 1990s to 2019.

In the Israeli political economy literature, scholars have addressed the position of the Israeli banks since Israel's early years (Aharoni, 1976, 1991; Heth, 1994; Levi-Faur, 1998, 2001; Maman & Rosenhek, 2012a, 2017) and into the neoliberal era (Frenkel, 1999; Maman & Rosenhek, 2011; Mandelkern, 2017; Mandelkern & Shalev, 2018; Nitzan & Bichler, 2002). Furthermore, scholars have examined the BoI's position in the Israeli economy and its relationship with the banks (Liviatan & Barkai, 2007; Maman & Rosenhek, 2007, 2011, 2012b; Manan & Rosenhek, 2007). Previous works have also focused on the Israeli banks as part of the Israeli business groups (Aharoni, 2007; Kosenko, 2007; Kosenko & Yafeh, 2010; Maman, 2002, 2008, 2017). However, little study, if any, has been devoted to the Israeli banks as political actors, and certainly no in-depth analysis over several decades.

Scholars of sociology, building on the earlier ideas of Useen (1984) and Mizruchi (1992) regarding corporate political behavior, have argued that firms are influenced by the social structures within which they are embedded (see also, C. Oliver, 1991). Suarez (2000) in her book offers one of the first longitudinal case studies of the political behavior of the same group of firms throughout the creation, maintenance, and destruction of a policy subsystem. It presents a novel conceptual approach stemming from a learning-based explanation of businesses' political behavior that allows one to consider past experiences as well as government structures and dominant issues as key factors in the formulation of their political strategies. Nevertheless, the longitudinal study did not focus on the political behavior of firms that enjoy a privileged position.

Several researches have looked at corporate political strategy primarily as visible lobbying (Bernhagen & Mitchell, 2009; Bouwen, 2002; Coen, 2007; Coen & Grant, 2000; Gerald Keim, 2006; Klüver, 2013; Tenbucken, 2002) or as a ''venue shopping'' strategy (Baumgartner & Jones, 1993; Beyers & Kerremans, 2011; Eising, 2007; Holyoke, Brown, & Henig, 2012; Schattschneider, 1951). However, none of them, not even those that have focused on the finance industry (e.g. Bernhagen & Chari, 2011; Chalmers, 2017; K. Young, 2013, 2015), have dealt with the evolution of firms that enjoy a privileged position as political actors.

The firm as political actor has mostly been associated with the growing literature of corporate political activity (CPA) (Gets, 2001; Gorostidi-Martinez & Zhao, 2017; Amy Hillman & Hitt, 1999; G. Keim & Baysinger, 1988; Lawton & Rajwani, 2013; Lawton & Rajwani, 2015; Lux, Crook, & Woehr, 2011; Rajwani & Azaaviele Liedong, 2015; Shaffer, 1995). The CPA perspective has emerged as a notable research frame for explaining a firm's performance in the political arena (Baysinger, 1984; Amy Hillman, Keim, & Douglas, 2004). Despite the extensive literature, to the best of my knowledge, there is no scholarly work that addresses how the "business's privileged position" variable has affected firms' nonmarket strategy, not even among studies that revolved around sector-level analysis (e.g. Bhuyan, 2000; Grier, Munger, & Robert, 1994). This is also the case regarding previous studies that focused on CPA in the banking sector (Azaaviele Liedong, Aghanya, & Rajwani, 2020; Baysinger & Woodman, 1982; Dickie, 1984; Moss, Mcgrath, Tonge, & Harris, 2012; Post, 1993; Post, Murray, Dickie, & Mahon, 1983). This dissertation aims to fulfill these gaps in the CPA literature.

Notwithstanding the growth of the business power literature since the global financial crisis of 2008 (e.g., Bell & Hindmoor, 2017; Culpepper & Reinke, 2014; Emmenegger, 2015; M. Moran & Payne, 2014), scholars have devoted relatively little attention to the nexus between structural parameters and the evolution of firms as political actors. This also includes studies that focus on the two dimensions of business power (*structural* versus *instrumental*) (e.g. Bell, 2012; Culpepper, 2015; Hindmoor & McGeechan, 2013). Recently, a few studies have introduced the state capacity perspective to the business power literature (e.g. Bell & Hindmoor, 2014a, 2017), but without examining how the state actors' protection of capitalism has influenced the evolution of the banks as political actors over the years.

Therefore, the main goal of this doctoral project is to fill the empirical and theoretical gaps in the CPA literature with respect to the evolution of the Israeli banks as political actors and to further understand the role of the state actors in this evolution. This dissertation will attempt, *first*, to handle the difficult-to-capture the dependent variable of "evolution of the banks as political actors"; *second*, to deepen our knowledge and understanding of the nexus between the privileged position of the banks in the Israeli economy and their evolution as political actors; and *third*, to identify the ways in which the key banking regulators protect the banks' privileged position, and further understand how this protection impacts the evolution of the banks as political actors.

The key motivation for this research agenda is to better understand how the reciprocal dependency in capitalist economies between the state and the banks on the issue of maintaining the banking system's financial stability influences the evolution of the banks as political actors. This evolution affects us both as citizens and as consumers.

The dissertation consists of three separate papers. The *first* paper explores the case of Israeli banking fees, which have come under attack since the early 1990s; it was only after the "noisy" politicization of the 2011 Socioeconomic Protest, however, that the banks' relative income from fees started to shrink. The paper, which is based on in-depth inductive process-tracing spanning three decades (1990-2018), analyzes (N=30) protocols of parliamentary hearings and (N=40) private bills. In addition, several semi-structured interviews (N=10 not coded) were conducted. The *second* paper examines how macro-sectoral characterization, such as the privileged position of business, may influence the embeddedness of government affairs departments (GADs) in firms' corporate structure, specifically of the Israeli banks' GADs in their corporate structure. The analysis is from a cross-sectoral comparative perspective and employs process-tracing that spans two decades (1998-2018). The *third* paper examines the factors that affect the recruitment sources of the two most senior management functions in banks, the chairperson of the board and the chief executive officer (CEO). On the basis of an in-depth qualitative study, it delineates the recruitment sources of these senior managers from the inception of the State of Israel in 1948 to 2019, using an original typology and dataset of the professional profile of all 87 former and incumbent Israeli banks' chairpersons/CEOs.

In the following sections of this introductory chapter, I present the conceptualization of "political actor" elements in the CPA literature. I briefly overview the literature on both business power and state capacity and position these literatures in relation to the CPA literature to which this thesis directly contributes. Moreover, I elaborate on the empirical approach that was used across the three dissertation papers.

The Firm as a Political Actor

Over the past thirty years, the nonmarket strategy (NMS) literature has flourished as a field of scholarly inquiry and several approaches inform it, including research on corporate political activity (CPA) (Gerald Keim, 2006; D. Schuler, 1996; D. A. Schuler, Schnietz, & Baggett, 2002), public administration (Boyne, 2002; Rashman, Withers, & Hartley, 2009), and, more recently, the social and environmental obligations of firms as they interact with their external stakeholders (Boddewyn & Doh, 2011; Husted & Allen, 2010; Yaziji, 2010). This dissertation focuses on the CPA literature that provides a diversity of theoretical lenses and a broad framework for understanding the political life and behavior of firms. CPA scholarly work has been done in a variety of areas, such as management, political science, economics and sociology (Gets, 2001). The theoretical constructs underpinning CPA research include three dominant perspectives that characterize the field: resources and capabilities, institutions, and political environments (Lawton & Rajwani, 2013). Despite the different views on CPA, there seems to be agreement that nonmarket strategy decisions are among a firm's most significant decisions (Coen & Willman, 1998; Amy Hillman et al., 2004; Willman et al., 2003).

What is meant by *nonmarket environment?* The link between firms' involvement in the nonmarket environment and its contribution to firm value has long been part of an evolving discussion in the strategic management and political science literature (Getz, 1997; Lord, 2000;

D. Vogel, 1996). The idea of specific skills and resources used by a firm to manage its political environment is not recent (e.g. Epstein, 1969; Fainsod, 1940; Leone, 1977; Mahon & Murray, 1981; Yoffie & Bergenstein, 1985b). Chandler (1962) was an early contributor to a long tradition of research on the relationship between environment and firm behavior. His work opened the door to important contingency theory contributions and a flurry of theory and studies that have confirmed the close relationships among environment, strategy, and structure (e.g. Andrews, 1987; Thompson, 1967; Venkatraman & Prescott, 1990). The dominant driver of CPA implementation research is Baron's work advocating the integration of CPA (which he terms "nonmarket" strategy) with the economic "market" strategies of the firm (Baron, 1995a). He argued that political strategies can both complement and substitute for market strategies and that effective implementation of either form of strategy necessitates integration with the other. Further, the nonmarket environment of firms is just as competitive as the market environment (Baron, 1995b, 1997, 1999, 2006). The nonmarket environment can be characterized primarily by the social, political, regulatory, legal, and cultural arrangements that constrain or facilitate a firm's activity. In their nonmarket environment firms compete principally with private interests within their industries or across other industries, but also collaborate and compete with political and social actors (Doh, Lawton, & Rajwani, 2012, p. 26). I focus in this dissertation on the parliamentary and regulatory arenas, remaining aware of the other nonmarket arenas.

Furthermore, the CPA literature is central to this dissertation, *first*, because its ontology encompasses a depiction of the firm as *political actor*, and *second*, because it remains practice-focused and can therefore inform decision-making inside the firm. According to Bach (2015), "*once firm operations have spilled over into the nonmarket environment, as they frequently and inevitably do, the firm becomes a political actor alongside a multitude of other interest groups with varying degrees of organization vying for political influence and power*" (Bach, 2015, p. 67). However, Coen (1997) focused on firms' ability to gain access to policymakers. He also defined the evolution of firms as political actors by the way firms allocate their political resources between various political channels, i.e., the ability of firms to assess their lobbying preferences for political channels and construct strategic alliances with rival firms.

Accordingly, my definition of the dependent variable – "evolution as a political actor" – relies in part on the terms and explanations mentioned above: *firms, as individual actors, play a prominent role in the policy process and develop into sophisticated political actors, due to their abilities to allocate their political resources between various political channels, to* *construct strategic alliances, and to assess their lobbying preferences for political channels and not just direct lobbying.* Still, it is hard to capture and fully comprehend this variable. Therefore, in order to handle it, in each paper I captured it through a different lens of the CPA literature and traced it over several decades. In the *first paper* I focus on the banks' political strategy and on their interactions with the main nonmarket stakeholders; in the *second paper*, I focus on the embeddedness of government affairs departments in the banks' corporate structure.

Prior CPA research has tended to focus on a variety of variables to explain what affects the political strategy of firms (e.g. Gorostidi-Martinez & Zhao, 2017; Lawton & Rajwani, 2015) and provides us with insight into four important categories of antecedents: firm, sector, issue, and institutional factors (e.g. Amy Hillman et al., 2004; Shaffer, 1995). This dissertation focuses on the sector-level influences on firms' political activity (e.g. Bhuyan, 2000; Grier et al., 1994). These type of studies focus on macro-level factors and treat "business" in a specific sector as a unified unit (e.g. Epstein, 1969; Getz, 1997). It has sought to examine whether an industry's structural variables, such as concentration (e.g. Grier & Roberts, 1991; Ozer & Lee, 2009; D. A. Schuler et al., 2002) and number of firms, affect the sector's ability to organize for political action, the so-called "collective action problem" (e.g. Wendy L. Hansen, Mitchell, & Dropre, 2005; Olson, 1965; Rehbein & Schuler, 1999). While this body of knowledge provides compelling arguments that sector-level factors influence corporations' political involvement, it does not address how the privileged position of business affects their political activity, not even studies that have delved into the banking sector (e.g. Azaaviele Liedong et al., 2020; Baysinger & Woodman, 1982; Dickie, 1984; Moss et al., 2012; Post, 1993; K. Young, 2013).

Therefore, relying on the CPA perspective alone does not provide a strong explanation. The present research strengthens the analysis by drawing on arguments from the business power and state capacity literatures and incorporating them into the CPA literature, as elaborated in the next section.

The Power of Business, State and Capital

Theories of business power suggest that business' power derives from two main sources. *First,* the clearest original arguments about the *privileged position* of business emanate from Marxist (Miliband, 1969; Poulantzas & Miliband, 1972), Weberian and neoclassical political theory scholars like Lindblom (1977) and Block (1977), who argued that governments are dependent on their investment decisions to sustain economic growth and fund public services. The key power of big business over government is structural, i.e., the power of business is generated "independently and automatically" as government leaders anticipate and defer to business demands (Hicks & Swank, 1992; Przeworski & Wallerstein, 1988). Therefore, the structural power that derives from control of capital flows is routinely wielded by business in the capitalist system (Marsh & Lewis, 2014).

Empirically, however, these claims have proven problematic and there have been a range of additions to and critiques of Lindblom's original arguments. Some have argued that structural power can be shaped and mediated by the economic cycle (e.g. Vogel, 1987, 1989). Scholars have also argued that this power is not generated automatically (e.g. Blyth, 2003; Hacker & Pierson, 2002). Hacker and Pierson (2002, p. 281) criticize the assumption that business pressure is a constant background variable that is generated systematically by an "investment veto weapon." Furthermore, scholars have argued that business' privileged access to policy-relevant information is an important power resource (Bernhagen, 2007; Bernhagen & Brauninger, 2005; Emmenegger, 2015). Others have argued that power can be shaped by divisions within the business sector between financial and coalitions of other business interests (Helleiner & Thistlethwaite, 2013; Pagliari & Young, 2014). My focus in the first paper is on the limits of traditional theories of structural power under highly politicized conditions. Scholars have suggested that business power declines substantially in highly politicized contexts where government leaders often face strong electoral pressures. However, highlighting the case of the banking fees reforms in Israel (1990-2018) and the influence of the "noisy" politicization of the 2011 Socioeconomic Protest, I show that under such conditions, state actors can still protect the privileged position of business using their bureaucratic capacities. Furthermore, this protection impacts the evolution of the banks as political actors.

The *second* form of business power is *instrumental*, stemming from organized interests, lobbying, campaign donations and advocacy through which companies pursue their interests in the political arena (e.g. Chalmers, 2017; Jacobs & King, 2016; Wilks, 2013). Recent studies suggest that the two forms of power often work together and can even be mutually reinforcing (e.g. Bell & Hindmoor, 2017; Fairfield, 2015; K. Young, 2015). These studies bolster this dissertation's argument that we cannot understand the evolution of banks as political actors without addressing their privileged position in the economy. However, the business power literature has barely addressed the effect of this privileged position on the evolution of businesses as political actors, mainly because of the instrumental power literature's narrow approach to businesses' political activity. The present research therefore aims to bridge the gap through a novel linkage between two bodies of knowledge, drawing on arguments from the business power literature and incorporating them into the CPA literature.

In addition, I build on the theoretical debates that tie between the state capacity perspective and the business power literature (e.g. Bell & Hindmoor, 2014a; Bell & Hindmoor, 2017; Culpepper, 2015), in order to demonstrate the focal role of the banking regulators in the evolution of the Israeli banks as political actors. The revival of state-centered theory in the early 1980s led some neo-Marxist theorists to reject structural power approaches. Instead, they argued, the state and its officials should be viewed as having their own interests (Nordlinger, 1981; Skocpol, 1980, 1985) and a desire to maximize their own autonomy and capacity (Evans, Rueschemeyer, & Skocpol, 1985). The state capacity approach focuses on the state's ability to implement its policy agendas and emphasizes bureaucratic expertise and state authority, as well as the nature of the state's relationship with key social or economic interlocutors (Cingolani, 2013; Colburn, 1988; Geddes, 1994; Gilbert & Howe, 1991; Mann, 1993; Migdal, 1988; Rueschemeyer & Evans, 1985; Soifer, 2008). The first paper illustrates how the banking regulator, using its bureaucratic capacity, clung to its dominant idea, i.e., maintaining the banks' financial stability, even in the face of the noisy politicization surrounding the banks. Furthermore, the third paper shows how the banking regulators affect the recruitment sources of the banks' chairpersons and CEOs to maintains their financial stability, even in the neoliberal era.

The above theoretical literature complements the CPA approach by allowing us to better understand the nexus between the banks' privileged position in the Israeli economy and their evolution as political actors, and to highlight the focal role of the banking regulators in this evolution. Therefore, I argue that the CPA scholarship can benefit from applying insights and perspectives through closer dialogue with the bodies of knowledge of business power and state capacity.

Empirical Approach

In order to properly capture the different components of the evolution of the Israeli banks as political actors through their nonmarket strategy in the parliamentary and regulatory arenas, it is necessary to conduct a backward mapping to identify who the key actors are in each arena, what characterizes their relationships with the banks, and what characterizes the relationships and arrangements between these nonmarket stakeholders. In addition, it is necessary to examine the different dimensions of the banks' political activity. Thus, to empirically understand the evolution of the Israeli banks as political actors from the early 1990s to 2019, I chose to use the (1) *case study method* and (2) *process-tracing methodology* for all <u>three papers</u>, and in addition (3) a across-sectoral comparative analysis for the <u>second paper</u>.

This dissertation uses an *explanatory case study method* to answer the main research questions in the three papers. This type of case study constitutes an empirical inquiry that investigates phenomena within the contexts of real-life situations and aims to answer "how and why" questions, with little control by the researcher over the occurrence of events (Yin, 2014). Case study is one of the most frequently used qualitative research methodologies. However, it has not yet attained a legitimate status as a social science research strategy because it does not have well-defined and well-structured protocols (Merriam, 1998; Yin, 1994). Therefore, in this research I rely on the perception offered by the works of Robert K. Yin. Yin (2002) argued that case study design has five components: a study's questions; its propositions, if any; its unit(s) of analysis; the logic linking the data to the propositions; and the criteria for interpreting the findings. Together, these components define "the logical sequence that connects the empirical data to a study's initial research questions and, ultimately, to its conclusions" (Yin, 2002, p. 20). Furthermore, the data gathering is influenced by the case study investigator's skills, training for a specific case study, the development of a protocol for the investigation, the screening of the case study nominations, and the conduct of a pilot study (Yin, 2017).

Case study researchers make use of a variety of data-gathering tools to address the initial propositions of a study (Yin, 2002, p. 109). In this research, a qualitative analysis was conducted of documents and interview transcripts, which involved examining and categorizing both quantitative and qualitative evidence in order to address the initial propositions. This method was the most appropriate for the purpose of examining different aspects of the evolution of the Israeli banks as political actors and made it possible to capture the complexities of real-life situations, so that the phenomenon can be studied further in depth.

In addition, this dissertation uses the *process-tracing analysis methodology*, defined as "the analysis of evidence on processes, sequences, and conjunctures of events within a case for the purposes of either developing or testing hypotheses about causal mechanisms that might causally explain the case" (Bennett & Checkel, 2015, p. 7). This methodology was chosen because of its qualities as a within-case analysis methodology for studying cases for the first time (Bennett & Checkel, 2015). It is the most appropriate for the purpose of appreciating the uniqueness of each case and enabled me to thoroughly immerse myself in the data within each context, allowing the unique attributes and patterns in each case to emerge, before a possible next step of attempting to locate general patterns and themes that exist in parallel domains in the literature (Collier, 2011). Addressing "evolution as political actors" and "effect on the recruitment sources of the banks' chairpersons and CEOs" as variables posed various spatial and temporal complexities that are difficult to trace causally. A careful implementation of the process-tracing methodology makes it possible to capture dependent variables as well as how certain independent variables interact with them.

The methodology enabled me to develop an in-depth understanding of the evolution of the banks as political actors as part of a pattern of meanings within the cases under study. I was able to uncover elements in their evolution such as the focal role played by the key banking regulators, the reciprocal dependency between the banking regulators and the banks around the issue of maintaining the banks' stability, as well as the banks' avoidance of the parliamentary arena as political actors. The methodology was also helpful in capturing the influence of the conflicts between the nonmarket stakeholders in the regulatory and parliamentary arenas. This may be helpful to other researchers in analyzing other cases, or provoke new questions (Bennett & Checkel, 2015).

In practice, the process-tracing methodology made it possible to advance typology development, construct original datasets, and generate hypotheses. It was also a useful way of organizing the data that allowed for conclusions to be drawn in ways that might be appealing to banking sectors elsewhere. The methodology led to research outcomes that directly address the dissertation's goals. It allowed me to identify commonalities and differences in the case data, capture dependent variables, explain the mechanisms behind them, and generate new research questions.

The main sources of data collection for the three papers included secondary sources such as banks' annual financial reports and websites, as well as articles published on economic news sites (*Globes*, *Haaretz*, and *Calcalist*), protocols of hearings in the Knesset committees, and reports and surveys, which are available from the websites of the Knesset, the BoI, and the Ministry of Finance (MoF). Additionally, I conducted semi-structured face-to-face and telephone interviews featuring open-ended questions, ranging in duration from one hour to 90 minutes (Harvey, 2011), between January 2016 and September 2019. The interviewees were senior managers or former senior managers from the BSD, the Antitrust Authority, the banks, the Association of Banks, former regulators, editors of economic newspapers and lobbyists, as well as managers and former managers of GADs in the following sectors: food and beverages, telecommunications, multi-channel TV and commercial TV. The interviewees were promised anonymity in exchange for their assistance.

In total, the dissertation is informed by 40 interviews with 35 interviewees. This means that some of the interviewees were interviewed more than once. Before each interview, the interviewees were asked if they would be comfortable with voice recording. If an interviewee did not grant his/her consent, note-taking was used. The recorded interviews and concurrent notes were transcribed daily immediately after the interviews, which allowed the researcher to reflect on the answers, areas left unanswered, or answers to be verified with the interview subject and/or cross-checked with other interview subjects. The interview subject sampling strategy involved both purposive and snowball sampling strategies. Purposive sampling was used because interviewees were targeted according to the case study covered in the papers (Guarte & Barrios, 2006). The snowball sampling strategy was also used to connect with other former and/or current senior-level officials (Noy, 2008).

The *first paper* focuses on the case of banking fees, which has been a salient issue in the Israeli consumer discourse for years. Using the process-tracing methodology (George & Bennett, 2005) to examine data about the banks' income from fees, policy outcomes, the banks' nonmarket strategy, and the interactions among the main actors in the two arenas that were involved in the battles over reforming the fees – the parliamentary and the regulatory – while also taking note of the other nonmarket arenas, I was able to uncover the nonmarket strategy of the banks and the focal role of the banking regulators in this regard. Furthermore, I traced the five major banks' total income since the comprehensive reform of fees on household accounts took effect (2009-2018). The main actors were the Economic Affairs Committee (EAC) of the Israeli parliament (The Knesset), the five major banks and the key banking regulators. The data collection tapped into secondary sources: I analyze (N=30) protocols of hearings in the EAC and (N=40) private bills. To support the secondary sources, I also conducted some semi-structured interviews (N=10 not coded).

The *second paper* focuses on the case of the embeddedness of government affairs departments (GADs) in the Israeli banks' corporate structure. It addresses the question by testing possible research hypotheses based on the extant literature, using interviews and secondary sources, a cross-sectoral comparative analysis and process-tracing. I conducted a preliminary study to observe whether the Israeli banks had embedded the GADs in their corporate structure, measuring the embeddedness of GADs through the frequency and type of changes they have undergone over the years. To capture the changes, I traced their establishment and the changes to them between 2005 (when the first GAD was established in the banking sector) and 2018. The empirical evidence suggests that their corporate government affairs infrastructure is unstable. In order to explain why the Israeli banks haven't embedded the GADs in their corporate structure, I lay out a *across-sectoral comparative analysis* employing an essential variable-oriented approach in *most similar systems design* (Miles & Huberman, 1994). I selected four key sectors in Israel, which are similar to the banking sector in their main components, but differ as regards the potential explanatory variable – they do not enjoy a privileged position in the Israeli economy – in order to understand whether the privileged position of business is more decisive in explaining the outcome. Those sectors are food and beverages, telecommunications, multi-channel TV and commercial TV.

Additionally, careful implementation of the process-tracing methodology makes it possible to capture the dependent variable, the embeddedness of GADs in firms' corporate structure, by tracing the establishment and the changes to the GADs from 1998 (when the first GAD was established) to 2018 in all the researched sectors. Furthermore, I trace the interactions of the firms with their main regulators in each sector.

The empirical element of this study relies on 35 semi-structured interviews with managers and former managers of GADs in these sectors. To better understand the uniqueness of the banking sector, I targeted, *inter alia*, industry experts such as managers in the Association of Banks, former regulators, editors of economic newspapers and lobbyists. Since GADs in Israel have hardly been studied, the aim of the interviews was to gather information about the circumstances surrounding the establishment of these departments, the process of their evolution, their main purpose, and the reasons for change over time. To support the interviews, the study also taps into secondary sources. For data analysis I used *Atlas ti* to code the interviews and their transcriptions for detailed analysis, coding the data inductively to identify recurrent themes and patterns (Eisenhardt, 1989; Kvale, 1996). The interviews were analyzed to compare the emergent patterns in the banking sector with those apparent in the other sectors mentioned above.

The dependent variable in this study, the embeddedness of GADs in the corporate structure, is measured by the frequency and type of changes that GADs have undergone over the years. There are three types of changes: The first type relates to the position of the GAD within the corporate structure (i.e., a change from an independent function in the corporate center to a sub-function in a separate division, such as communication affairs or legal). It is therefore indicative of a firm's inability to find the equilibrium point between market and nonmarket strategies in the corporate structure (e.g. Baron, 1995a). The second type concerns to whom the GAD's manager reports (chief executive officer, or a senior manager), and the third type relates to a relative upgrade or downgrade in terms of the hierarchical position of the department. For instance, a demotion of the unit in the corporate structure means that unlike before, the manager reports to the CEO as an independent department rather than as a division.

The case chose in the *third paper* focuses on the ability of the banking regulators to affect the recruitment sources (RS) of the chairperson of the board and the chief executive officer in the banks. This case demonstrates that even in the neoliberal era, the banking regulators are still key players in the banks' political sphere. Process-tracing was also used in this study to capture the RS of the chairpersons/CEOs of the Israeli banks from the inception of Israel in 1948 to 2019. I constructed an original dataset of the professional profile of all 87 former and incumbent Israeli banks' chairpersons/CEOs during the timeframe of the study in the five major Israeli banks. The dataset includes data on chairpersons' and CEOs' professional profile, drawing on a new typology of RS I devised for that purpose. The typology is made up of five RS types: institutional, bureaucratic (1) and bureaucratic (2), professional bankers and loyalists of the controlling shareholders. The data collection tapped into secondary sources and a cross-checking of the data was undertaken by searching on Google for the name of each CEO and chairperson. Furthermore, I conducted five semi-structured interviews with open-ended questions. The main purpose of the interviews was to complete missing data and understand *de facto* the selection process of the chairpersons/CEOs.

Here are some explanations regarding how I handled the data: First, I coded the types of RS according to the five types and entered the relevant code for the chairpersons/CEOs of each bank. Second, I organized the data into two main groups (chairpersons and CEOs) by RS types, without any bank affiliation. Third, to cope with the wide range of years, I clustered the data into groups of five years, which makes the graphic display much easier to understand. Fourth, I regrouped the data into four periods consistent with the changes in the banks' ownership structure and chose the *common* RS type for each period. Finally, I converted the data to show the percentage of all bank chairpersons or CEOs regarding each type of RS.

How did I address key methodological challenges regarding the above methods? Case studies do have certain disadvantages. The challenges may be associated with data analysis and very little basis for the generalization of findings and conclusions, so researchers need to guarantee internal validity, external validity, and reliability (Yin, 2017). In order to cope with that, I've used several methodological safeguards: (1) in all three cases I draw the data from multiple sources to capture the cases under study in their complexity and entirety. For internal validity, (2) I employed analytic techniques such as pattern matching, analytical framework and typology; and for external validity, (3) I specify reservations regarding any generalization from the Israeli banking sector and its applicability to banking sectors elsewhere. (4) I have ensured reliability through the transparency of the databases, author's calculations and interviews conducted, which appear in the papers' appendixes.

One of the main challenges to the process-tracing methodology is that researchers may use it unsystematically with potential inferential errors (Bennett & Checkel, 2015). In order to cope with that, I've used some methodological safeguards that include: (5) I've made justifiable decisions on where to start and end data collection efforts. As regards the first and second papers, I chose the starting points of data collection based on critical junctures. In the first paper, I started data collection from the early 1990s, when fees began to loom large in the eyes of politicians and the Israel Consumer Council (ICC). Until then there was no systemic supervision of bank fees in Israel. In the second paper, I started data collection from 1998, when the first GAD was established in Israel (in the telecommunications sector). In the third paper, I started from the inception of the State of Israel in 1948, because I wanted to analyze the recruitment sources of the banks' chairpersons and CEOs throughout the years of the state's existence. This enabled me to demonstrate the changes in the recruitment sources of these senior managers according to the state configuration (interventionist versus neoliberal). For the first and second papers, I decided to stop pursuing one stream of evidence when it became so repetitive that gathering more of the same kind of evidence had a low probability of revising my estimate of the likely accuracy of alternative explanations. Simultaneously, I wanted the data to be as close as possible to the end of the research process so that it would be up to date. This last point is relevant to the third paper of this dissertation as well.

Another challenge in process tracing is the risk of incorporating potential bias of evidentiary sources (Mahoney, 2012). To cope with that, in all three papers, (6) I have considered a wide range of primary and secondary sources. Furthermore, I have learned from experience that interviews have great potential for bias since the interviewees are interested in presenting their narrative, so I always cross-check information between the interviewees, and I also relied on insights from previous studies in a variety of disciplines.

A final significant challenge to the process-tracing methodology is missing data. Given the critical importance of analyzing data at every step of the process, (7) I had to cope with the problem of limited data at certain points in time, especially in the second paper. Therefore, during the process of analysis, beyond relying on diverse streams of evidence, I conducted interviews. Since GADs in Israel have hardly been studied, the aim of the interviews was to gather information about the circumstances surrounding the establishment of these departments, the process of their evolution, their main purpose, the reasons for changes to GADs in the corporate structure over time, the type of changes, etc. In the first and third papers I found that a single interview may prove to be the crucial piece of evidence that instantiates one explanation or undermines another. For instance, I coped with missing data through interviews with former senior executives that have already retired and are not afraid to provide explanations and add information.

The cross-sectoral comparative perspective method is based on the idea that a society or social/economic system cannot be fully understood without comparing it with other societies or systems (George & Bennett, 2005). The main limitation of the comparative perspective method is that societies and systems differ in so many ways and therefore may not always be compared meaningfully. In the second paper, I used the “most similar method” (Miles & Huberman, 1994) to select four key sectors in Israel for comparison to the banking sector. All these sectors are characterized as heavily regulated, have experienced a series of reforms that attempted to increase diversity and competition, and were adversely affected by the Social Protest. I used elimination to find the difference despite the similar characteristics regarding the variable being tested.

Overall, with the above limitations in mind, analysis of the various sources of information from different periods nonetheless allowed me in each paper to capture the main independent variable that explains the evolution of the Israeli banks as political actors. Furthermore, I believe that the methodological approach taken by these studies yields reliable explanations that can be carefully generalized with the appropriate reservations.

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CHAPTER 1

Structural Power, State Capacity and Social Protest:

The Case of Israeli Banking Fees

This chapter presents a manuscript that is currently under review at a peer-reviewed journal.

Structural Power, State Capacity and Social Protest: The Case of Israeli Banking Fees

Abstract

Does business power decline substantially in highly politicized contexts, where state actors face pressures that do not align with business preferences? This paper asserts that under such conditions, state actors can still protect the privileged position of business using their bureaucratic capacities. I demonstrate this through in-depth process-tracing of the battles over banking fees reforms in Israel (1990-2018), employing insights from the corporate political activity, structural power of business and state capacity literatures. Although banking fees have been under attack since the early 1990s, only after the “noisy” politicisation of the 2011 Socioeconomic Protest did the banks’ relative income from fees start to shrink. *How* can we explain this decline following the Protest? And *how* can we explain the continued profitability of the banks despite this decline? The analysis demonstrates how the banks maintained their income from fees during the pre-Protest era by means of the “protection” they received from the banking regulators. However, the Protest challenged the idea of “banks’ financial stability” due to consumers’ hostility towards the banks, thus forcing the banking regulators to intervene in the fees while ensuring the stability of the banking system.

Keywords: Structural power, state capacity, banking regulation, nonmarket strategy, social protest.

Introduction

Lindblom’s work has been heavily criticized theoretically and empirically in recent years (Lindblom, 1977). This paper contributes to the literature that focuses on the limits of traditional theories of structural power under highly politicized conditions. Scholars have suggested that business power declines substantially in highly politicized contexts where government leaders often face strong electoral pressures (e.g. Culpepper, 2011; Jacobs & Shapiro, 2000; Smith, 2000). Furthermore, an important factor that may constrain or enable government resistance to business power is social movements (K. Young, Tarun, & Schwartz, 2018). The banking reforms in the UK and the United States following the global financial crisis (GFC) of 2008 provided a useful illustration of the limits of traditional theories of structural power under highly politicized conditions. For instance, Bell (2012) and Bell and Hindmoor (2014a, 2014b, 2015) have argued that "noisy" politicization conditions led to ideational change of the state actors when they perceived the structural power of business as threatening. On this basis, state actors have challenged the structural power of business (Bell & Hindmoor, 2017). Notwithstanding the growth of this literature, it does not devote enough attention to the ways state actors can still protect business' privileged position even in the face of noisy politicisation surrounding the business. This paper aims to bridge this gap in the literature by using the case of the banking fees reforms in Israel (1990-2018) and the influence of the "noisy" politicization of the 2011 Socioeconomic Protest on the banking regulators, the politicians and the banks.

Since the early 1990s, the Israeli banks have been under public, media, judicial and political scrutiny of their fees for bank account management (hereinafter fees).[1] These fees were portrayed as too high and too complex. Despite the attacks and the reforms, the ratio of fees income to total income remained circa 30 per cent over a period of twenty years (Knesset, 2007a, pp. 34-35). However, during the last decade, and especially since the Protest, the banks' relative income from fees has been consistently in decline; nonetheless, the banks continue to increase their profits. *How* can we explain this decline, especially from the Protest on, given that fees have been under attack since the early 1990s? And *how* can we explain the continued profitability of the banks despite this decline? To address these questions, I conducted an inductive process-tracing spanning three decades (1990-2018), focusing on the banks' income from fees, the interactions among the main actors who were involved in the regulatory and parliamentary arenas, the banks' nonmarket strategy in these arenas, and the policy outcomes. The main sources of data collection tapped into secondary sources and interviews.

It is important to note that the two main nonmarket arenas in which the reforming over fees occurred have been characterized, especially since the beginning of the millennium, by polarized policy schools: at one end of the spectrum is the *Knesset* (the Israeli parliament), which has constantly prioritized the consumers' interests. At the other end stand the main banking regulators: the Bank of Israel (BoI), the Israeli Central Bank, which has accumulated formidable institutional and political power and autonomous capacities (Liviatan & Barkai, 2007; Maman & Rosenhek, 2011); and the Banking Supervision Department (BSD) – a

[1] Retail sector: individuals, households and small businesses.

statutory unit within the BoI, whose main mandate concerns regulation of the banks' financial stability, i.e., it lies at the root of the BSD's organizational identity. The idea of ensuring the stability of the banking system is embedded in the supervision model of the Israeli banking sector, creating an inherent conflict with protecting the banks' customers from improper conduct by the banks (Plato-Shinar, 2019, pp. 10-18).

The empirical findings suggest that during the pre-Protest era, the banks maintained their income from fees by means of the 'protection' they received from the banking regulators, which mediated the idea of "banks' financial stability" mainly to the parliamentary arena and tried to soften policy in this regard. In the regulatory arena, the Protest challenged that idea due to consumers' hostility towards the banks, forcing the BSD to intervene in the fees while ensuring the stability of the banking system. However, in the parliamentary arena the consumers' interest was given priority in the first place, therefore the Protest did not spark any ideational change among the politicians. Consequently, the banks were unable to block or change the fee reforms in the parliamentary arena altogether by their nonmarket strategy. This has led them to avoid the parliamentary arena and to be dependent on the protection they received in the regulatory arena, thereby influencing them as political actors.[2]

This paper draws upon the state capacity literature by arguing that the BSD clung to its dominant idea of protecting banks' financial stability, even in the face of the noisy politicization surrounding the banks, using its *bureaucratic capacity*. This paper also contributes to the corporate political activity (CPA) literature by demonstrating how this protection of the banks' privileged position affected their political activity.

The paper is structured as follows: the next section presents the literature review and the paper's contribution. The third section presents the methodology and data. The fourth section presents the privileged position of the Israeli banks. The penultimate section analyses the case of banking fees. The final section concludes with some of the broader implications and limitations of the case study.

Structural Power Idea, State Capacity and Nonmarket Strategy

The banking sector often occupies an important structural position in capitalist economies given its indispensable role in sustaining productive sectors throughout the economy and

[2] For elaboration on 'business as political actors', see (Coen, 1997)

providing the vital liquidity and capital which any modern economy needs to "breathe", function and grow (A. Busch, 2009; Strahan, 2010; Strange, 1997, p. 114). Banks attract citizens' savings in the form of deposits, offer means of payment for goods and services, and finance the development of business (Mullineux, 2006). For this reason, in no other sector are the reciprocal dependence and the potential consequences of an individual firm's collapse as far-reaching and unforeseeable as in the financial sector (Fairfield, 2015, p. 422).

Consequently, the business power literature emphasizes the structural position of business, and especially the finance sector, to explain policy outcomes. The clearest original arguments about the structural power of business emanate from Marxist (Miliband, 1969; Poulantzas & Miliband, 1972), Weberian and neoclassical political theory scholars like Lindblom (1977) and Block (1977), who argued that governments are dependent on their investment decisions to sustain economic growth and fund public services. The key power of big business over government is structural, i.e., the power of business is generated "independently and automatically" as government leaders anticipate and defer to business demands (Hicks & Swank, 1992; Przeworski & Wallerstein, 1988). Furthermore, the structural power that derives from control of capital flows is routinely wielded by business in the capitalist system. Therefore, among the wider electoral and fiscal consequences, policymakers avoid policies that threaten to undermine business confidence (Marsh & Lewis, 2014).

Empirically, however, these claims have proven problematic and there have been a range of additions and critiques of Lindblom's original arguments. The revival of state-centered theory in the early 1980s led some neo-Marxist theorists to reject structural power approaches. Instead, they argued, the state and its officials should be viewed as having their own interests (Nordlinger, 1981; Skocpol, 1980, 1985). Some have argued that structural power can be shaped and mediated by the economic cycle (Vogel, 1989). Scholars have also argued that this power is not generated automatically (e.g. Blyth, 2003; Hacker & Pierson, 2002). Hacker and Pierson (2002, p. 281) criticize the assumption that business pressure is a constant background variable that is generated systematically by an "investment veto weapon". Furthermore, scholars have argued that business' privileged access to policy-relevant information is an important power resource (Bernhagen, 2007; Bernhagen & Brauninger, 2005; Emmenegger, 2015). Others have argued that power can be shaped by divisions within the business sector between financial and coalitions of other business interests (Helleiner & Thistlethwaite, 2013; Pagliari & Young, 2014).

Nonetheless, this paper contributes to the literature that focuses on the limits of the traditional theories of structural power under highly politicized conditions. Smith's research on business politics in the U.S. suggested that business power declines substantially in such highly politicized contexts where government leaders often face strong electoral pressures that may not align with business preferences (Smith, 2000). Some researchers have argued that electoral incentives and pressure from non-elite societal actors can counteract business power, particularly when issues are salient among voters, competition between the main political contenders is strong, and elections are proximate (e.g. Bell & Hindmoor, 2014b; Culpepper, 2011; Jacobs & Shapiro, 2000). Moreover, even rightwing parties for whom business is a core constituency will occasionally support policies that business dislikes to attract a broader electorate (Gibson, 1996). Furthermore, an important factor that may constrain or enable government resistance to business power is social movements (K. Young et al., 2018). Social movements play a decisive role in the struggle to change policies. Indeed, a salient issue may be expected to beget social movements and arouse a public outcry more readily than esoteric, technical issues (Amenta, Caren, Chiarello, & Su, 2010; D. S. Meyer, 2004).

The UK's and the United States' banking reforms following the GFC of 2008 provided a useful illustration of the limits of traditional theories of structural power in highly politicized contexts. The literature in this context mainly focuses on business power as inter-subjectively constructed by state actors that use ideational lenses to confront, interpret and react to business pressures (Bell, 2012; Marsh, Akram, & Birkett, 2015). In this vein, Bell and Hindmoor (2014a, 2014b, 2015) argue that since the GFC of 2008, expert state elites have challenged arguments about capital and lending and deployed competing ideas in key political contests because they perceived the structural power of banks as threatening. Thus, the noisy politicisation of banking reforms led to ideational change among the state actors (Bell & Hindmoor, 2017).

Notwithstanding the growth of this literature, research thus far has not fully accounted for the ways in which state actors can still cling to their dominant idea and protect a business's privileged position even in the face of "noisy" politicization surrounding the business. This paper aims to bridge this gap, offering a fresh analysis that draws upon the state capacity literature. State capacity is a core concept in political science research, and it is widely recognized that state institutions exert considerable influence on outcomes such as economic development, civil conflict, democratic consolidation, and international security (Cingolani, 2013; Gilbert & Howe, 1991; Mann, 1984; Weiss, 1998). The difficulty of measuring state capacity empirically (Hendrix, 2010) has led to several broad definitions. To explain the BSD's bureaucratic capacity to cling to its dominant idea under highly politicized conditions, I focus mainly on the neo-Weberian approach to state capacity as a multidimensional concept that captures both relational and organizational properties of state institutions. In their discussion of state capacity to intervene, Rueschemeyer and Evans (1985) take their starting point from Weber: "Effective state intervention is predicated on the existence of a well-developed bureaucratic apparatus" (Rueschemeyer & Evans, 1985, p. 59); *embedded autonomy*, which is a combination of internal bureaucratic coherence within agencies and external connectedness with key industrial sectors (Evans, 1995); and "the capacity to implement state-initiated policies" (Geddes, 1994, p. 14). Skocpol (1985) defines state capacity as whether a state is able to "implement official goals, especially over the actual or potential opposition of powerful social groups or in the face of recalcitrant socioeconomic circumstances" (Skocpol, 1985, p. 9). This paper develops this literature by emphasizing the role of institutionalized prioritization of goals in enhancing state capacity, including bureaucratic capacity. I rely on the definition provided by Gilad (2015): "an organization [state agency] that holds an institutionalized prioritization of goals is more likely to resist external demands that are inconsistent with its identity, and its response is likely to be superficial…." (Gilad, 2015, p. 605).

Alternatively to the structural power literature, the extensive CPA literature explains policy outcomes by firms' performance in nonmarket arenas (e.g. Baysinger, 1984; Gorostidi-Martinez & Zhao, 2017; Lawton & Rajwani, 2015). Despite this extensive body of knowledge (e.g. Amy Hillman et al., 2004; Lawton & Rajwani, 2013), to the best of my knowledge there is no scholarly work that addresses the way the "business's privileged position" variable affected firms' nonmarket strategy, not even among studies that revolved around sector-level analysis (e.g. Bhuyan, 2000; Grier et al., 1994). These studies aimed to examine whether an industry's structural variables such as concentration (e.g., Grier & Roberts, 1991; Ozer & Lee, 2009; D. A. Schuler et al., 2002) and number of firms affected the sector's ability to organize for political action, the so-called "collective action problem" (e.g., Wendy L. Hansen et al., 2005; Olson, 1965; Rehbein & Schuler, 1999). Furthermore, this literature addresses how the political activity of an industry's competitors affects a firm's CPA (Baumgartner & Leech, 2001). This is also the case in previous studies that focused on CPA in the banking sector (e.g. Azaaviele Liedong et al., 2020; Dickie, 1984; Lambert, 2019; Moss et al., 2012; Post, 1993). Therefore, this paper also aims to fill the gap in this CPA literature.

Methodology and Data

This study is an *explanatory case study* (Yin, 2014) spanning three decades (1990-2018) that uses the *process-tracing* methodology (George & Bennett, 2005) to examine data about the banks' income from fees, policy outcomes, the banks' nonmarket strategy, and the interactions among the main actors in the two arenas that were involved in the battles over reforming the fees – the parliamentary and the regulatory – while taking note of the other nonmarket arenas, i.e., social, political, regulatory, legal, and cultural arrangements (Doh et al., 2012). Furthermore, I traced the five major banks' total income since the comprehensive reform of fees on household accounts took effect (2009-2018). The main actors in this case study have been the Economic Affairs Committee (EAC) of the Knesset, the five major banks and the main banking regulators, the BoI and the BSD.

The main sources of data collection tapped into secondary sources such as banks' annual financial reports, banks' internet sites, reports and surveys, which are available from the websites of the Knesset, the BoI and the Ministry of Finance (MoF), and articles published in sites and outlets of economic news (*Globes* and *Haaretz*). The paper analyzes (N=30) protocols of hearings in the EAC and (N=40) private bills. Between January 2016 and December 2018 I also conducted some semi-structured interviews (N=10 not coded) with open-ended questions (Harvey, 2011), ranging in duration from an hour to 90 minutes. The interviewees were senior managers from the BSD, the Israel Competition Authority, the banks, lobbying consultancy firms and the Association of Banks in Israel (see: Appendix 1). The interviews aimed to cover for missing data in specific segments and to gather further explanations about the dynamic between the actors. The interviewees were promised anonymity in exchange for their assistance.

Banks' Income from Fees

The data in Figure 1 below includes all types of bank fees expressed in real terms, pegged to the Consumer Price Index, the baseline being the average index for 2016. The data shows that the banks' income from fees increased by 80 percent between 1990 and 2018 and the ratio of fees to total income remained circa 30 per cent over a period of twenty years. Between 2008 and 2010, the ratio of fees to total income was in decline, but a year later it stabilized again. Since 2011, there has been an ongoing decline in the ratio of fees income to total income. However, Table 1 below shows that since the implementation of the 2007 banking fees' reform at the end of 2008 the net profits of the banks have not decreased. The decrease in 2012 is related to a drop in Bank Leumi's profit due to expenses related to the investigation of the US Tax Authority against the bank (Plato-Shinar & Borenstein-Nativ, 2017).

Insert Figure 1 about here

Insert Table 1 about here

Figure 1 and Table 1 illustrate the phenomenon which this paper is trying to explain: an ongoing decline in the ratio of fees income to total income since 2011 alongside preservation, even enhancement, of the banks' profitability.

The Privileged Position of the Banking System in Israel

This section briefly overviews the privileged position of the banking system in the Israeli economy since the inception of the State of Israel in 1948 until 2019. The Israeli banking system dominates most aspects of Israeli financial activity. It consists of five groups that hold 94 percent of the system's assets in a duopoly market structure, with the two largest banks (Hapoalim, Leumi) controlling 55 percent of the market and three medium-sized banks (Discount, Mizrahi-Tefahot and First International) the remaining 45 percent (Bank of Israel, 2019, p. 3). The banking system weathered the GFC of 2008 relatively well and continued to make enormous profits thanks to the conservative banking model, which emphasized the maintenance of stability (Bank of Israel, 2009, p. 3).

Four of the five major Israeli banks were founded before the establishment of the state and were rooted in the institutions and the political parties that established the state: Bank Leumi was founded by the Zionist Federation, and Bank Hapoalim was set up by the *Histadrut* (the main association of the labor unions), which was politically loyal and affiliated to the ruling Labor Party (*Mapai*). Likewise, the Mizrahi Bank was founded by the Mizrahi Movement, a religious Zionist organization (Kosenko, 2007). Thus, the banks' structural power was very much built by the state. Moreover, this power was theirs by virtue of their control over key economic resources, especially the investment and credit process on which government and society at large depend. Until the 1980s, Israel's political economy was best captured by the concept of a developmental state. It was initially characterized by almost absolute government control over the economy and the financial and capital markets, while the banking system served as an agent of the government. Within this model, banks served as a vehicle for promoting state interests and for prioritizing rapid economic development. The biggest banks (Leumi, Hapoalim and Discount) were not only the owners of most of big business, but they also dominated all aspects of financial activity (Levi-Faur, 1998).

At the beginning of the 1980s, the largest banks attracted massive amounts of private savings by illegally manipulating the prices of their own shares, and in 1983 their share prices listed on the Tel Aviv Stock Exchange (TASE) collapsed. After the bubble had burst, the government temporarily nationalized their equity (Plato-Shinar, 2016, pp. 37-39). Following the piecemeal sale of the banks' shares to the general public, the public holds about 83 percent of them (Bank of Israel, 2019, p. 1). Consequently, the relevant stakeholders have come to realize that leaving businesses almost entirely dependent on the banks for investment finance poses a threat to the country's financial stability (Maman, 2017; Mandelkern, 2015). Since the early 1990s, the banking sector has gone through several waves of liberalization (Frenkel, 1999), and the financial system has transformed from a state-led and bank-based structure to a far more market-based arena (Maman & Rosenhek, 2012a). The main aim of the liberalization was to increase competition in the household and small business segments in terms of financial services, credit, payments and settlement, innovation and services. The domestic credit provided by the banking sector at its peak in 1984 was reported at 208 percent of GDP, but since the 1990s it has been barely circa 85 percent of GDP (World Bank, 2018).

A determined coalition of state actors has implemented substantial reforms in recent years. These reforms advanced a series of important institutional changes that signified a far-reaching transformation of the financial markets (Maman & Rosenhek, 2012a). The Brodet Committee (1995) largely prohibited banks from owning real economic assets (Maman, 2008). The committee known as the Bachar Committee (2004-2005) forced the banks to sell their holdings in provident and mutual funds to insurance companies, private investment houses and foreign financial bodies (Ministry of Finance, 2004; Sokoler, 2006). Furthermore, the largest banks were required to give up their role as owners and financiers of nonbank enterprises and were barred from controlling new financial instruments. Thus, the banks lost a substantial share of the business credit market to a growing sector of institutional investors, although their domination of consumer banking has been preserved (Mandelkern & Shalev, 2018). The committee known as the Strum Committee (2016) suggested enhanced competition in the consumer lending sector of the credit market – chiefly by forcing the two largest banks (Hapoalim and Leumi) to sell their credit-card companies (Bank of Israel, 2019, p. 5; Banking Competition Committee, 2016). Subsequently, the banks' share in the provision of consumer credit has been waning, as about 20 percent of consumer credit is not taken from banks. The credit scope of the five main bank groups in relation to total GDP decreased from 102 percent in 2001 to 77 percent in 2017 (Bank of Israel, 2018b).

To sum up, despite the banks' losses in most of their political battles they still hold a privileged position in most aspects of financial activity in Israel (Bank of Israel, 2019, p. 21). On the other hand, the legitimacy of the banks has been attenuated by the public, media and political debates about their role and value, as will be elaborated in the following section.

The Case of Banking Fees in Israel

This section traces the battle over reforming the fees since the early 1990s to 2018. The analysis comprises three distinct time periods, in line with the policy outcomes.

Structural power and Avoidance Strategy (Between the 1990s and 2004)

Given the gap between the increasing number of fees on one hand and an economic recession with real wages dwindling on the other, fees have loomed large in the eyes of politicians, the Israel Consumer Council (ICC) and the public since the early 1990s. This led the BSD to appoint a committee to examine the structure of fees in 1993, greatly reducing the number of fees levied on households and coordinating a uniform format for a *table of banking fees*.[3] Until then there was no systemic supervision of bank fees in Israel (Knesset, 2007a, p. 32). The banks

[3] Regulation No. 414 in the Proper Conduct of Banking Business, in the Table of Banking Fees.

were very surprised by this intervention, due to their significant role in the Israeli economy. As one interviewee explained:

> Until that point, the banks educated their customers that fees were sacred and untouchable. Therefore, both public outcries and the unusual intervention of the BSD took the banks by surprise.[4]

Although the basic structure set in 1993 included 125 fees, the list in 1994 included 162 fees, because the banks circumvented the BSD's policy (Knesset, 2007a, p. 41). In the name of the banks' stability, the BSD turned a blind eye as the profits of the banks plummeted due to unpaid bad and doubtful debts.[5] As a result of the privileged position of the banks in the regulatory arena, their interests enjoyed over-proportionate consideration in the formulation of policy, even if they abstained from direct political activity. In contrast, in other nonmarket arenas the public discourse about consumers' ideas continued to decrease the banks' political power. For instance, at the beginning of 2002, The ICC launched a public campaign to lobby for the disclosure of fees on the retail sector, which put the idea of consumer protection on the agenda. The ICC demanded that the Supervisor of Banks (hereinafter: Supervisor) would be more proactive in asking the banks to disclose all fees imposed on their consumers (Sharvit, 2002). Likewise, in the judicial arena, the Director General of the Antitrust Authority investigated criminal charges against the five major banks, according to which they colluded among themselves from the 1990s until 2004 while sharing and exchanging information concerning their fees, but the Supervisor chose not to intervene (Plato-Shinar, 2019, p. 195).

In light of the negative public discourse towards the banks, the Supervisor was no longer in a position to overlook their behavior; in July 2003, he had taken an unusual step and opposed Leumi's plan to hike its fees by two to four percent (Sheffer, 2003), and in August 2003, he appointed an internal team – the Team to Examine the Policy of the BSD in respect to the banking services (hereinafter Fine Team). As one interviewee noted:

> This move was not intended to bring about a dramatic change in banks' fees, but rather to increase the transparency towards consumers.[6]

At about the same time, in 2004 the Members of Parliament (MoPs) of the Economic Affairs Committee (EAC) picked up on the high electoral potential of fees as a politically saline issue,

[4] Interviewee #1.
[5] Interviewees #2 and #5.
[6] Interviewee #4.

and therefore chose to intervene significantly in fees policy (Knesset, 2004a).[7] The accession of the EAC to the process added another arena for the banks, creating a more complex and uncertain environment. This marked the end of one period and the beginning of another.

Mediating the Idea of Maintaining Banks' Stability (Between 2004 and the 2011 Social Protest)

In the second half of 2004, the banks faced an attack regarding the Fine Team's findings:

> The price of basic fees in Israel is higher than in countries with either competition or regulation. Intervention is necessary in the prices of some fees due to a market failure, lack of competition, and ideological considerations that justify such intervention (Knesset, 2006, pp. 23-24).

The banks managed to develop a largely unified political strategy (cg. Amy Hillman & Hitt, 1999) in the case of fees by participating in collective actions through the Association of Banks (AOBs), which, in response to the Fine Team's recommendations, claimed that the Israeli banks did not charge households the highest fees in the world (Knesset, 2007a, p. 42). The new Supervisor, who was more amenable than his predecessors to intervention in bank–customer relations, endorsed the Fine Team's recommendations. However, the Governor of the BoI (hereinafter: Governor) rejected them. The Governor claimed in the EAC that:

> The authority to impose supervision on the prices of fees belongs solely to the Industry and Trade Ministry's Price Controls Department. The Supervisor has no statutory power to supervise fees (Knesset, 2004b).

The disagreement between the Governor and the Supervisor served the interest of the EAC to disregard the recommendations of the Fine Team and appoint a Team to Examine Issues in the Banking System (hereinafter: Team), because the EAC wanted to take the credit for leading the banks' fee reform.[8] Paradoxically, the Team adopted most of the recommendations of the Fine Team, focusing on increasing the transparency regarding fees.[9] Immediately after the recommendations had come into effect, Hapoalim Bank took a defiant step and announced the increase of its "line-entry fee", which aroused another public outcry and led to political attacks against the banks' fees (Bank of Israel, 2007, p. 116).

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7 In 1998 the Knesset amended the Banking (Service to Customer) Law, 5741-1981, adding section 5A, which compelled the banks to furnish their customers with written information on fees they charge.

8 Interviewee #1.

9 Banking (Service to Customer) (Proper Disclosure and Delivery of Documents) Rules, 5752-1992, sections 26 and 26A.

The CEOs of the five largest banks realized that the public outcry could lead to additional legislating against fees from the EAC; as a preventative measure, they proposed a "package deal" whereby some of the fees would be put under price supervision, or not increased. Furthermore, the banks, especially the Hapoalim and Leumi banks' duopoly, opted for *arena-shopping* strategies to the regulatory arena, so that the BSD would influence the final version of the "package deal" rather than the EAC, given the banks' vulnerability in the parliamentary arena, i.e., in parallel to the hearings in the EAC, there were discussions in the Finance Committee of the Knesset on the "Bachar Committee" recommendations to reduce the structural power of the banks in the Israeli economy.

The "package deal" agreed by the EAC, whose final version was compiled by the BSD, came into effect on December 1, 2005 (Bank of Israel, 2007, p. 116). The banks appeared to have succeeded with their political activity behind closed doors, as reflected in the following examples: the ICC rejected the "package deal" and claimed that it did not solve existing problems, and the Antitrust Authority Director-General opposed the deal, contending that he would not endorse it unless the barriers to transferring accounts were thoroughly addressed (Zucker, 2004b).

Nevertheless, the banks continued to promote their interest and in October 2006 fees remained a festering issue after three banks, Leumi, Hapoalim and Discount, announced their plans to raise fees that were not part of the "package deal." So, unsurprisingly, in 2007 the average expenditure of an account holder for basic bank services was 73 percent higher than the average in other Western countries after the number of fees had increased by 137 percent since 1993 (Knesset, 2007a, pp. 32, 36). Under growing public and parliamentary scrutiny, the Governor could not ignore the issue of fees, "Yet its response was belated and attenuated due to its general ambivalence towards intervention in bank–customer relations" (Gilad, 2015, p. 604). Denouncing the way banks exploited customers, the Governor promoted a reform of fees on household accounts, including reconsideration of fees by both the Knesset and the BSD. Apparently, this step stemmed from his desire to control both the timing and the way in which the issue was reintroduced into the agenda.[10]

In January 2007 the Knesset approved the decision to establish a Parliamentary Inquiry Committee regarding banking fees under the auspices of the EAC. It was in the interest of the

[10] Interviewee #4, #6, and #10.

five major banks and the BSD to frame the intervention of the Knesset and the public discourse around only the fees on household accounts.[11] Indeed, the Supervisor settled with the Chairperson of the EAC, reforming only these fees rather than all the fees for retail customers. Moreover, the BSD finalized its legislative proposal, suggesting that the Supervisor be empowered to determine the entire structure of fees. Part of the motivation for keeping those powers in the hands of the BSD was to try to stave off potential intervention through Knesset legislation, which could be populist and harm the banks' stability.[12] Despite the low probability of success, the banks lobbied the members of the EAC to remove the bill (Knesset, 2007b), but the EAC Chairperson refused to cave in to these pressures and declared that:

> I hope that the banks will understand our determination to create a real supervisory mechanism for setting fees (Knesset, 2007c).

The battle between the BSD and the EAC became heated again when the Supervisor claimed that the type of bill promoted by the EAC should be avoided, maintaining that the BSD promoted regulatory transparency concerning fees for households. The Governor argued further in the EAC hearing that during the GFC of 2008, it was not the time to weaken banks' stability, but rather a time to sustain their stability more than ever (Knesset, 2008a). As explained by senior managers at the BSD,

> The MoPs focused on their private interests and attempted to please their voters. They do not care whether changes in legislation they promote contribute to or harm existing regulation. The BSD has no choice but to negotiate with them [the MoPs] to either minimize the damage or try to prevent the legislation they promoted.[13]

In July 2007 the Knesset passed the bill and the BSD was statutorily authorized to supervise fees.[14] On July 1, 2008, a comprehensive reform of fees on household accounts took effect,[15] empowering the BSD to reduce the number of fees and allowing it to intervene in prices and stimulate competition in the banking system by issuing comparisons for the public. The Supervisor is obligated to report to the EAC every six months about the actions taken regarding fees in the form of a Semiannual Report on Banking Service Fees (hereinafter: Report). The repercussions followed quickly – there were banks that capitalized on the reform in order to

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[11] Interviewee #7 and #8.
[12] Interviewees #3 and #9.
[13] Interviewee #2.
[14] Until then, the competent authority to set prices on essential goods and services, by virtue of the Supervision of Goods and Services, was the Ministry of Trade and Industry.
[15] Banking (Service to Customer) (Fees) Rules, 5768-2008, (2008).

increase their fees, with the Supervisor taking no measures against them (Plato-Shinar, 2019). Indeed, the ICC found that the average fee charged to households actually increased (Aflalo, 2008). Thus, when the Supervisor presented the report to the EAC, he came under attack from MoPs who stated that the reform had failed (Knesset, 2008b). Above all, the MoPs kept trying to restrict fees through private bills that endeavored to abolish or limit fees;[16] the Governor used his capacities and took action in order to block any populist legislative intervention by the Knesset, convincing the members of the Ministerial Committee for Legislation to block the legislation process.[17] Had the Governor not been able to prevent such legislation, the banks would have lost a significant amount of revenue from fees.

In summary, the institutional positioning of the BoI and the BSD's institutionalized prioritization of maintaining the banks' stability underlie their role as mediators of this idea to the parliamentary arena, which prioritizes the consumers' interests.[18] Upon review, the means by which the BSD has come to grips with fees over the first two periods are indicative of a passive attitude. Given its prioritization of goals, the BSD did not consider a systematic response to the public outcry over fees, because this would be incompatible with its organizational identity. Even after the 2007 reform, which was amended to authorise the BSD to intervene in fees prices, the Supervisor seldom used this power. Initially, the action taken was lukewarm and fell within an overall agenda of nonintervention (see also, Gilad, 2015; Plato-Shinar, 2019).

Maintaining Banks' Financial Stability (Between the 2011 Social Protest and 2018)

During the summer of 2011, an unprecedented wave of mass socioeconomic protests rocked Israel (Rosenhek & Shalev, 2014). The Socioeconomic Protest initially focused on cost of living-related issues such as housing and pricy dairy foods and on consumer interests in general. It therefore created a powerful incentive for politicians and bureaucrats to consider the interest of consumers and develop tools to intervene in their behalf (Gilad, Alon-Barkat, & Weiss, 2018). For the state agencies that championed neoliberalism, the Protest appears to have triggered a partial recalibration of their agenda and policies (Mandelkern & Shalev, 2018),

[16] Around 40 private bills were submitted regarding bank fees in the period 1990-2018.
[17] This committee decides whether to vote in favor of or against every bill that reaches the Knesset.
[18] For elaboration on 'mediating the structural power idea', see: (Bell, 2012).

sharpening even further the inherent conflict between ensuring banks' stability and the consumer perspective in the supervision model of the Israeli banking sector.

In response to the Protest, the government established a Committee on Socioeconomic Change (hereinafter: the Trajtenberg Committee), which in its report included a chapter on the high concentration in the banking system, calling for the appointment of a team to review it (Committee for a Social-Economic Change, 2011, p. 181). Following this requirement in the Trajtenberg report, in early 2012 the MoF and the BoI appointed the Team to Examine Increasing Competitiveness in the Banking System, headed by the Supervisor. The banks endeavored to influence the team's recommendations, although they tried to lower their profile in the parliamentary arena, realizing that MoPs might turn their (anti)social agenda against them. In March 2013 the Team published its final report (Bank of Israel, 2013a). The Supervisor said he planned to:

> … eliminate a series of fees and re-price others, all of which do not require any Knesset approval and can be done administratively (Aizescu, 2012).

Indeed, the Protest had an impact on fees, especially on the strengthening of their supervision by the BSD. The public atmosphere and the criticism leveled at the banking system in the Trajtenberg report didn't leave the Supervisor much choice and during this period the BSD continued to be active, i.e., sanctioning Hapoalim Bank for charging fees that were not included in its slate of fees. However, the fines imposed by the regulator were very low as compared to other countries, in order not to do anything that might endanger not only the banks' stability, but even their profitability (Plato-Shinar & Borenstein-Nativ, 2017). Moreover, in June 2013 the BSD publicized its intention to take another step-in improving competition and increasing transparency regarding fees by means of a uniform "basket of current account services fees" (hereinafter: "basket of fees"). The purpose of this step was to force each bank to offer its customers one price for all the basic services the average household needs. The BSD obligated the banks to set a single total price, but the pricing itself was to be determined by each bank on its own (Bank of Israel, 2013b). On April 1, 2014, the amendment requiring a "basket of fees" took effect (Bank of Israel, 2014).[19] In March 2015, the BSD announced more measures to reduce the fees (Bank of Israel, 2015, pp. 134-135), and since then has taken additional measures (Bank of Israel, 2018b, pp. 2-3; 2019, p. 138) .

[19] Banking (Service to Customer) (Fees) Rules, 5768-2008.

In summary, the Protest brought about enhanced supervision over fees by the BSD, but it did not lead to any ideational change inside the BSD, which continued to give clear priority to ensuring the banks' financial stability over consumer protection. The following examples illustrate this: *first,* throughout the researched period, the BSD's website has continued to reflect this institutionalized prioritization, defining the BSD's first role as follows:

> Supervising the stability of the banking corporations—avoiding excess risks to their stability and protecting depositors' money (accessed 10 August 2020).

Second, although the Protest put the banks' privileged position on the agenda, the BSD continued to provide a regulatory environment in which the banks can be profitable notwithstanding the reduction in income from fees, being compensated by interest income, *inter alia*. The banks' total income consists of two main sources: the interest income and the non-interest income, given that the share of fees from the total non-interest income was the dominant among sources. Over the years, there has been a pendulum movement between the two types of income; when one source of banks' income has come under regulatory pressure, the banks usually increased their income from the other source. The measures taken by the BSD in response to the Protest, together with a slow but consistent reduction of fees as an ongoing implementation of the 2007 reform, have generated a true change in the ratio of income from fees to total income (see also, Plato-Shinar, 2019), as illustrated in Figure 1. However, Table 1 shows that since the implementation of the 2007 reform at the end of 2008 the net profits of the banks did not decrease. For instance, despite the low interest rate environment in Israel and worldwide, which usually leads to an erosion of the banks' core sources of profit, during 2016-2017 the banks succeeded in increasing their net interest income (by about 8 percent in 2017) (Bank of Israel, 2018b, p. 3). In 2018, the net interest margin,[20] which reflects the ability of the bank to produce a yield from its interest-bearing activity, rose to a level of 2.25 percent, as compared to 2.12 percent in 2017 (Bank of Israel, 2019, pp. 4-6).

Third, Figure 1 shows that the income from fees grew during 2018 by about 2.3 percent relative to the previous year, while the ratio of income from fees to the total level of activity remained unchanged following several years of decline. Furthermore, according to the BSD, since 2017 the income from fees for bank account management has remained unchanged, following several years of decline (Bank of Israel, 2019). This means that once the effects of the Protest died down the BSD curtailed its intervention, since the Protest did not change its

[20] The ratio of net interest income to total financial assets that yield financing income.

institutionalized prioritization. And *fourth*, the BSD's consistence in prioritizing the maintenance of the banks' stability was also reflected in the mounting anger against it in the public and parliamentary arenas as a result of, *inter alia*, the protection it provides the banks, thereby blocking attempts to *regulate for competition* that benefits consumers (See for examples: Avissar, 2016; Rolnik, 2017).

Conclusion

This paper has drawn on the battles over banking fee reforms in Israel to demonstrate that state actors can still cling to their dominant ideas and protect business's privileged position even in highly politicized contexts. The empirical findings suggest that in the pre-Protest era, the banks maintained their income from fees by means of the "protection" they received from the banking regulators, which mediated the idea of "banks' financial stability" mainly to the parliamentary arena. However, the Socioeconomic Protest of 2011 posed a threat to the BSD's ordering of goals, because it challenged that idea due to consumers' hostility towards the banks. Thus, it forced the BSD to intervene in the fees while ensuring the stability of the banking system in diverse ways. Indeed, the empirical findings show an ongoing decline in the ratio of fees income to total income since 2011 along with maintenance of the banks' profitability.

It is not the case, then, as neoclassical political theorists have argued, that business' privileged position is generated "automatically" by government officials. Rather, as the present case-study shows in reliance on the state capacity literature, the BSD clung to its dominant idea, which is, protecting the banks' financial stability, even in the face of the noisy politicization surrounding the banks, by using its *bureaucratic capacity*. The BSD held on to its institutionalized prioritization of goals, given its main mandate concerns the banks' financial stability, which lies at the root of its organizational identity. It therefore resisted external pressures that are inconsistent with its identity. This argument characterizes the Israeli banking regulators' approach in general, i.e., it is reflected in the fact that the banking system weathered the GFC of 2008 relatively well, and it also explains why despite the banks' losses in most of their political battles, they still enjoy a privileged position in most aspects of financial activity in Israel, as noted in the fourth section above.

However, in the parliamentary arena, where the consumers' interest was awarded priority in the first place, the Protest did not cause any ideational change among the politicians. We would expect the banks to play a prominent role in the policy process and develop into sophisticated political actors. However, the banks were unable to block or change the fee reforms in the parliamentary arena altogether by their nonmarket strategy. This has prompted them to avoid the parliamentary arena and rely on the protection they receive in the regulatory arena, thereby influencing them as political actors. The banking sector often occupies an important structural position in capitalist economies; as demonstrated in this paper, the structural power of capital is expressed in practice by state bodies that protect capitalists' interests. Therefore, the main banking regulators play a critical role in the behavior of the Israeli banks as political actors in both arenas. These insights directly contribute to the growing CPA literature by demonstrating the important nexus between privileged position and firms' nonmarket strategy.

This study is not without its limitations. The case study focused on the Israeli banking system, which is relatively small and concentrated, making it possible to cover almost the entire sector and conduct an industry-wide analysis. However, differences in culture, regulatory environment or legal landscape can clearly matter. Nevertheless, some of the core ideas broached in this paper have broader applicability and may offer new avenues for research. Further work is required to examine in-depth the regulator's interest policy, which is beyond the scope of this study, as well as under what additional conditions state actors might persist in protecting business's privileged position, even in highly politicized contexts. Future studies can also further distill the differences between the politicians and the bureaucrats in this regard and what effect this has on business political activity.

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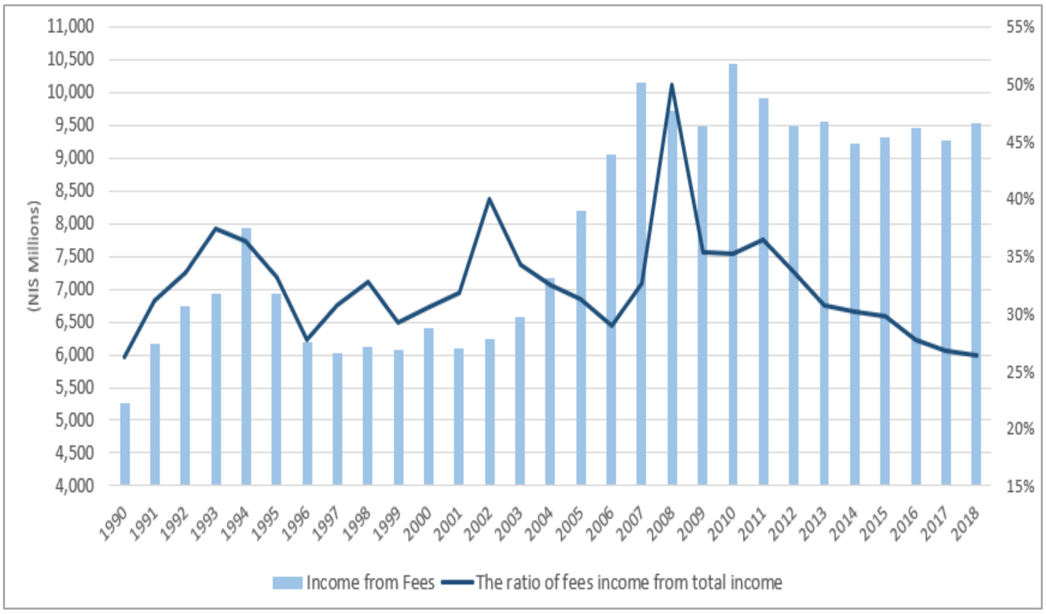
Supplementary Appendix

Appendix #1: Interviews Conducted

Organization Types	Number of Interviews
Banks	3
Banking Supervision Department	2
Antitrust Authority	1
Lobbying Consultancy Firms	2
The Association of Banks in Israel	2

Tables and Figures

Figure 1. Income from Fees of the Five Israeli Banks 1990-2018 (in million NIS)



Source: author's calculations from the annual financial reports of the banks.

Table 1. The Aggregate Net Profit of the Five Major Banks 2009-2018 (in billion NIS)

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
5.4	6.6	7	5.9	6.9	6.4	8.24	8.1	9.1	9. 45

Source: author's calculations from the annual financial reports of the banks.

CHAPTER 2

The (Dis)advantages of a Privileged Position:

The Case of Banks' Government Affairs Departments

This chapter presents a manuscript that is currently under review at a peer-reviewed journal.

The (Dis)advantages of a Privileged Position: The Case of Banks' Government Affairs Departments

Abstract

Government affairs departments (GADs) stand at the center of the corporate political activity (CPA) literature. However, we know little about how macro-sectoral characterization, such as the privileged position of business, might influence their embeddedness in firms' corporate structure. This paper analyses how GADs are created and embedded in the Israeli banking industry. Surprisingly, I have found their corporate government affairs infrastructure to be unstable. This raises the question as to *why* the Israeli banks have not embedded the GADs in their corporate structure? Using a cross-sectoral comparative analysis and process-tracing from 1998 to 2018, the paper provides a novel linkage between two bodies of knowledge, drawing on arguments from the business power literature and incorporating them into the CPA literature. It asserts that given the privileged position of the banks, whereby they are accorded protection by the Israeli central bank, their need to embed consistent mechanism of government affairs in their corporate structure is attenuated.

Keywords: Non-market strategy, government affairs departments, privileged position of business, state capacity, organizational change

Introduction

Government affairs departments (GADs) stand at the center of the corporate political activity (CPA) literature (Bernhagen, Dur, & Marshall, 2014; Getz, 2006; Lawton & Rajwani, 2013; Shaffer & Hillman, 2000). Often located high in a firm's hierarchy, GADs shape and carry out the political strategies of firms and play a leading role in negotiations with regulatory and political authorities (Levi-Faur & Rozen Bachar, 2011). Since government policies have been increasingly weighing on the competitive environment and firms' costs, firms have significantly raised their investment in political strategies. Thus, the extent to which firms embed GADs in their corporate structure to create shareholder value is recognized as one of the most important decisions in their non-market strategies (Baron, 1995, 1997, 1999; Amy Hillman, Keim, & Douglas, 2004). Despite the growing body of CPA literature, we know little about how macro-sectoral characterization, such as the privileged position of business, might influence the embeddedness of GADs in firms' corporate structure. This is one of the more interesting and less researched aspects in the study of CPA. Nevertheless, even CPA scholars who have delved into GADs in the banking sector have not referred to the privileged position element in their work (Baysinger & Woodman, 1982; Dickie, 1984; Post, 1993; Post, Murray, Dickie, & Mahon, 1983).

The banking sector provides an exhaustive case study for examining this issue, since this sector often occupies a privileged structural position in capitalist economies, given its indispensable role in sustaining productive sectors and providing the vital liquidity and capital with which any modern economy 'breathes', functions and grows (Busch, 2009; Strahan, 2010). In no other sector, then, are the reciprocal dependence and the potential consequences of an individual firm's collapse as far-reaching and unforeseeable (Fairfield, 2015, p. 422). The global financial crisis of 2008 sharpened our understanding that the banking sector is unique (Dewatripont, Rochet, & Tirole, 2010).

The literature on business power emphasizes two forms of power: First is the *privileged position* of business, referring to "the ways in which large companies and capital holders – in practice very often the same thing – gain influence over politics without necessarily trying to, because of the way they are built into the process of economic growth. This is the sense in which its advantages are structural" (Culpepper, 2015, p. 405). Second is the *instrumental power* of business, underscoring the lobbying and advocacy through which companies pursue their interests in the political arena (Chalmers, 2017; Jacobs & King, 2016). Recent studies suggest that the two forms of power often work together and can even be mutually reinforcing (e.g. Bell & Hindmoor, 2017; Fairfield, 2015; Young, 2015). However, this literature has barely addressed the effect of the privileged position of business on how firms organize their GADs, mainly because of the instrumental power literature's narrow approach to businesses' political activity. Using the Israeli banks' GADs as a case in point, this paper aims to bridge the gap in the literature through a novel linkage between two bodies of knowledge, drawing on arguments from the business power literature and incorporating them into the CPA literature.

I conducted a preliminary study to observe whether the Israeli banks had embedded the GADs in their corporate structure, measuring the embeddedness of GADs through the frequency and type of changes they have undergone over the years. Surprisingly, the empirical evidence suggests that their corporate government affairs infrastructure is unstable, i.e., the position of GADs within the corporate structure frequently varies. Changes have mostly occurred in an unplanned manner or, in other cases, as part of internal organizational processes rather than with reference to how GAD functions are viewed and expected to relate to political strategy.

Previous studies have found that GADs focus on maintaining a set of long-term relationships with external stakeholders, specifically with political and regulatory publics for connections and experience (Amy Hillman & Hitt, 1999; Pinkham, 1998). It is therefore reasonable to assume that banks will organize their GADs and embed them in the corporate structure as carefully as they manage other mainstream corporate functions such as finance, HRM and marketing. This raises the question as to *why* the Israeli banks have not embedded the GADs in their corporate structure? This paper addresses the question by testing possible research hypotheses, using interviews and secondary sources, a cross-sectoral comparative analysis and process-tracing from 1998 (when the first GAD was established in Israel) to 2018. The paper asserts that given the privileged position of the banks, whereby they are accorded protection by the banking regulators, their need to embed consistent mechanism of government affairs in their corporate structure is attenuated.

The paper is structured as follows: the next section presents a literature review and the research hypotheses. The third section presents the methodology of the study. The fourth section explores the first hypothesis through analysis of the effect of the privileged position of Israeli banks on their GADs. The penultimate section discusses the second hypothesis by presenting and analyzing the comparative findings. The final section concludes with some of the broader implications and limitations of the case study.

Literature Review and Research Hypotheses

An important strand in the CPA literature concerns the development of GADs and their organizational structure (Amy. Hillman & Keim, 1995; John, Rajwani, & Lawton, 2015; Lux, Crook, & Woehr, 2011). This structure brings together professionals and creates conditions for more active implementation of political practices on an ongoing basis (John et al., 2015, p. 131). The corporate GAD was likened to a *window in/window out* by Post et al. (1983), based on Adams's (1976) description of boundary spanning functions. The GAD is a *window into* the organization for increasing transparency, legitimacy, and trust between the firm and its environment. It is also a *window out* through which the firm can shape issues and the opinions of external stakeholders (Adams, 1976). Most studies in the CPA literature look at GADs from a micro-level perspective. For example, scholars have focused on the formal organizational structures of CPA such as GADs, public affairs departments or Washington, DC offices, and on how the structure of these departments supports corporate strategy (Amy Hillman, Withers, & Collins, 2009; Post, Murray, Dickie, & Mahon, 1982; Shaffer, 1995), including, the configuration of this function in global firms (Moss, Mcgrath, Tonge, & Harris, 2012). Furthermore, the CPA literature taps into, *inter alia*, a resource-based view to understand GADs at the micro-level, as a resource of firms that engage in political activity (Bonardi & Vanden Bergh, 2015; Gets, 2001; Lawton & Rajwani, 2011). Moreover, studies have emphasized the importance of dynamic capabilities to organizational performance in complex or changing environments (Christine Oliver & Holzinger, 2008; Wang & Barney, 2006).

This research nonetheless focuses on the industry-level influences on firms' political activity (e.g. Bhuyan, 2000; Grier, Munger, & Robert, 1994). The CPA studies which focus on macro-level factors and treat "business" in a specific industry as a unified unit (Epstein, 1969; Getz, 1997) have sought to examine whether an industry's structural variables, such as concentration (Ozer & Lee, 2009; Schuler, Schnietz, & Baggett, 2002) and number of firms, affect the sector's ability to organize for political action, the so-called "collective action problem" (e.g., Wendy L. Hansen, Mitchell, & Dropre, 2005; Olson, 1965; Rehbein & Schuler, 1999). Furthermore, this literature addresses how the political activity of an industry's competitors affects a firm's CPA (Baumgartner & Leech, 2001). While this body of knowledge provides compelling arguments that industry-level factors influence corporate political involvement, they do not address how macro-sectoral characterization, such as the privileged position of business, affects the embeddedness of GADs in corporate structure, not even studies that have delved into GADs in the banking sector (Azaaviele Liedong, Aghanya, & Rajwani, 2020; Baysinger & Woodman, 1982; Dickie, 1984; Moss et al., 2012; Post, 1993; Post et al., 1983). This paper aims to bridge this gap, through both the empirical and the theoretical insights derived from the case analysis of the Israeli banks' GADs.

Research Hypotheses

The literature on business power emphasizes two forms of power: *First*, the clearest original arguments about the *privileged position* of business emanate from the Marxist (Poulantzas & Miliband, 1972), Weberian and neoclassical political theory scholars like Lindblom (1977) and Block (1977), who argued that governments are dependent on their investment decisions to sustain economic growth and fund public services. The key power of big business over government is structural, i.e., the power of business is generated "independently and automatically" as government leaders anticipate and defer to business demands (Hicks &

Swank, 1992; Przeworski & Wallerstein, 1988). Therefore, the structural power that derives from control of capital flows is routinely wielded by business in the capitalist system (Marsh & Lewis, 2014). Some sectors may lack resources or be economically weak, or governments might perceive their growth as non-essential or even detrimental to overall economic growth. In the case of the banking sector there is a strong *prima facie* case to argue that the banking sector possesses a strong measure of structural power in the sense employed by Lindblom (Bell & Hindmoor, 2017, p. 104).

Second, the *instrumental power* of business stems from organized interests, lobbying, campaign donations and advocacy through which companies pursue their interests in the political arena (Chalmers, 2017; Jacobs & King, 2016; Wilks, 2013). In brief, instrumentalists emphasize the allegiances of policymakers and direct mechanisms such as lobbying and campaign donations, whereas structuralists stress the constraints imposed by political and economic institutions irrespective of the intentions of individual policymakers (Bell, 2006; Young, Tarun, & Schwartz, 2018). However, recent studies suggest that the two forms of power often work together and can even be mutually reinforcing. In this view, business power is the product of a relationship between business and government operating through structural and instrumental channels (Bell & Hindmoor, 2017; Young, 2015). For example, Fairfield (2015) argued that when they are concerned a priori about market reactions policymakers may grant business greater access and participation than would be expected, given the latter's extant sources of instrumental power (Fairfield, 2015, p. 422). In the same vein, Culpepper (2015) argued that even if these two dimensions of business power are conceptually distinct, they are nonetheless extremely difficult to disentangle in practice. Hence, any attempt to build on the theory of structural power must wrestle with the problem of the frequently observed equivalent effects of instrumental and structural power (Culpepper, 2015, p. 396). Additionally, Culpepper and Reinke (2014) argued that structural power can be exercised strategically. They have shown that structural power can fruitfully be reincorporated into political analysis not only as a resource that acts automatically in the heads of politicians, but also as a resource on which banks draw deliberately in bargaining with governments.

All these studies bolster this paper's assumption that we cannot understand *why* the Israeli banks have not embedded the GADs in their corporate structure, without addressing their privileged position in the economy. The first research hypothesis, then, is:

> ***H1:*** *The Israeli banks did not embed the GADs in their corporate structure due to their privileged position in the regulatory arena. Given this privileged position, their need*

to embed consistent mechanisms of government affairs in their corporate structure is attenuated.

The second hypothesis provides a competing explanation that tests whether other macro-sectoral variables than ‘privileged position’ affect the embeddedness of GADs in the banks’ corporate structure. I focus on institutional pressures that hinge on new institutional perspectives. These perspectives look at the organization fields, the institutions and political environment domains and offer a macro-view of how firms’ CPA may be affected by institutional pressures (John et al., 2015, p. 122). The institutional constituents that exert pressures include the state, interest groups and public opinion (Bluedorn, Johnson, Cartwright, & Barringer, 1994; C. Oliver, 1991). The assumption is that firms’ political actions are socially embedded in both the softer aspects (e.g., culture and history) and harder aspects (e.g., formal rules and enforcement systems) of institutions. In this view, firms engage in political activity as a response to outside pressures, given their passive role in the political environment (e.g. Griffin & Dunn, 2004; Martin, 1995; Rehbein & Schuler, 1999). For instance, institutional pressures led to the establishment of GADs in the USA (Harris, 1989; Yoffie & Bergenstein, 1985) and in Europe (Coen & Vannoni, 2018; Greenwood, 2011).

Given, every national business system has its own attributes (Wendy L. Hansen & Mitchell, 2001; John et al., 2015; Lawton & Rajwani, 2013). State policy networks therefore affect firm-government relations and account for the national characteristics of the actors involved, such as organized societal interests and state agencies (Van Waarden, 1992). The assumption is that firms that operate in sectors that possess the same national characteristics – e.g., are heavily regulated, or possess the same degree of stability and uncertainty -- are likely to behave similarly (Grier & Roberts, 1991). Moreover, the institutional pressures common to firms in the same sector or in the same national business system cause firms to exhibit similar structures and activities (homogeneity or isomorphism) to ensure survival and legitimacy in both non-market and market environments (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Scott, 1987). The second research hypothesis, then, is:

H2*: That the Israeli banks did not embed the GADs in their corporate structure can be explained as a broader phenomenon that characterizes Israeli firms from heavily regulated sectors in general and it is not unique to the banking sector.*

Methodology

This study proceeded in three steps: *first*, I conducted an in-depth *explanatory case study* analysis (Yin, 2014) of the embeddedness of GADs in the Israeli banks' corporate structures. *Second*, in order to explain why the Israeli banks haven't embedded the GADs in their corporate structure, I lay out a cross-sectoral comparative analysis employing an essential variable-oriented approach in *most similar systems design* (George & Bennett, 2005; Miles & Huberman, 1994). I selected four key sectors in Israel, which are similar to the banking sector in their main components,[1] but differ as regards the potential explanatory variable – they do not enjoy a privileged position in the Israeli economy – in order to understand whether the privileged position of business is more decisive for the outcome to be explained. Those sectors are: food and beverages, telecommunications, multi-channel TV and commercial TV (OECD, 2016, 2018). *Third*, data analysis was based on qualitative analysis of documents and interview transcripts (Bennett & Checkel, 2015). Additionally, careful implementation of the *process tracing* methodology makes it possible to capture the dependent variable, the embeddedness of GADs in firms' corporate structure, by tracing the establishment and the changes to the GADs from 1998 (when the first GAD was established) to 2018 in all the researched sectors. Furthermore, I trace the interactions of the firms with their main regulators in each sector.

Data Collection and Analysis

The empirical element of this study relies on 35 semi-structured face-to-face and telephone interviews with open-ended questions ranging in duration from one hour to 90-minutes (Harvey, 2011) conducted between September 2017 and December 2018. Having promised confidentiality, in each sector I focused on the firms that have had a GAD for at least five years, to gain a perspective. The interviewees were managers and former managers of GADs in these sectors. To better understand the uniqueness of the banking sector in this regard, I targeted, *inter alias*, industry experts such as managers in the Association of Banks, former regulators, editors of economic newspapers and lobbyists (see: Appendix B).

Since GADs in Israel have hardly been studied, the aim of the interviews was to gather information about the circumstances surrounding the establishment of these departments, the process of their evolution, their main purpose, the reasons for changes to GADs in the corporate

[1] Based on previous studies regarding some of the comparative components (e.g. Post et al., 1983).

structure over time, the type of changes, etc. The interviewees were promised anonymity in exchange for their assistance. To support the interviews, the study also *taps into* secondary sources such as firms' financial reports and articles published in economic news sites. Moreover, I used *Atlas ti* to code the interviews and their transcription for detailed analysis, coding the data inductively to identify recurrent themes and patterns (Kvale, 1996). The interviews were analyzed to compare the emergent patterns in the banking sector with those apparent in the non-banking sectors.

Measurement

The GADs become acquainted with the nonmarket environments by garnering information and expertise, which are then translated into formal organizational routines and structures and maintenance of a set of long-term relationships with external stakeholders (Suarez, 2000; Timmermans, 2015). It is therefore reasonable to assume that firms will organize their GADs and embed them in the corporate structure as carefully as they manage other mainstream corporate functions. If the changes to GADs do not occur as a result of organizational evolution stages (Coen & Willman, 1998) or as part of firms' political strategy (Lawton, Rajwani, & Doh, 2013; Teece, 2007), they indicate a short-term focus, which suggests that GADs have not been embedded in firms' corporate structure, surely not on a permanent basis. Therefore, the dependent variable in this study, the embeddedness of GADs in the corporate structure, is measured by the frequency and type of changes that GADs have undergone over the years.

Three are three types of changes:[2] The *first type* reflates to the position of the GAD within the corporate structure (i.e., a change from an independent function in the corporate center to a sub-function in a separate division, such as communication affairs or legal. It is therefore indicative of a firm's inability to find the equilibrium point between market and non-market strategies in the corporate structure (e.g. Baron, 1995). The *second type* concerns to whom the GAD's manager reports (Chief Executive Officer, or a senior manager), and the *third type* relates to a relative upgrade or downgrade in terms of the hierarchical position of the department. For instance, a demotion of the unit in the corporate structure means that unlike before, the manager reports to the CEO as an independent department rather than as a division.

[2] Changes that according to the interviews were rather meager and not fundamental were not defined as changes. For instance, a change in the size of a department (number of professional staff) was mainly due to outsourcing.

The Privileged Position of Israeli Banks and its Effect on their GADs

This section explores the first hypothesis while incorporating explanations regarding the privileged position of the banks in the Israeli economy. Moreover, the empirical element relies on interviews, secondary sources, and tracing the establishment and changes to GADs, with an emphasis on the political and the regulatory environments.

<u>Hypothesis # 1:</u> *Given the privileged position of the Israeli banks, their need to embed consistent mechanisms of government affairs in their corporate structure is attenuated.*

The Israeli banking system consists of five major banks that hold 94 percent of the system's assets. The system has a duopoly market structure, with the two largest banks (Hapoalim, Leumi) controlling 55 percent of the market and three medium-sized banks (Discount, Mizrahi-Tefahot and First International) the remaining 45 percent (Bank of Israel, 2019, p. 3). The rest of the banking system consists of three small independent banks (Union, Jerusalem and Dexia), four branches of foreign banks (Citibank N.A, HSBC, UBank and Barclays), and eleven representative offices of foreign banks[3] (Bank of Israel, 2016, p. 8) providing a broad range of financial services including business, commercial, and retail banking (OECD, 2016, p. 25; 2019, p. 13).

Table 1 below summarizes the GADs in the Israeli banks. The two largest banks (Hapoalim and Leumi) and one mid-sized bank (Discount) have GADs. The two other mid-sized banks (Mizrahi-Tefahot and First International), the small and foreign banks do not have GADs and their legal divisions are responsible for government affairs. Moreover, they also rely on representation by the Association of Banks in Israel,[4] whose activity focuses on regulatory and economic areas as well as legal representation in issues where there is no conflict of interest between the banks. Hence, only the banks that have GADs can choose between various ways to execute their political strategy: they can pursue their political strategy by either externalizing or internalizing representation (internal control, in-house GAD), or they can opt for a combination.

Insert Table 1 about here

[3] The representative offices of foreign banks in Israel are not supervised by the Israeli Supervisor of Banks and therefore were not included in this research.
[4] Interviewees #4 #9 #10 and #26.

The five major banks dominate most aspects of Israeli financial activity (Bank of Israel, 2019, p. 21). Their privileged position in the Israeli economy was very much built by the state from its inception in 1948 until the mid-1980s. The banks were rooted in the institutions and the political parties, and this power was theirs by virtue of their control over key economic resources, especially the investment and credit processes on which government and society at large depend (Kosenko & Yafeh, 2010). Until the 1980s, Israel's economy was best captured by the concept of a developmental state. It was initially characterized by almost absolute government control over the economy and the financial and capital markets, while the banking system served as an agent of the government. Within this model, banks served as a vehicle for promoting state interests and for prioritizing rapid economic development (Maman, 2017).

At the beginning of the 1980s, the major banks attracted massive amounts of private savings by illegally manipulating the prices of their own shares, and in 1983 their share prices listed on the Tel Aviv Stock Exchange (TASE) collapsed. After the bubble had burst, the government temporarily nationalized their equity (Plato-Shinar, 2016, pp. 37-39). Following the piecemeal sale of the banks' shares to the general public, the public holds about 83 percent of them (Bank of Israel, 2019, p. 1). Consequently, mainly the Ministry of Finance (MoF) has come to realize that leaving businesses almost entirely dependent on the banks for investment finance poses a threat to the country's financial stability (Maman, 2017). Since the early 1990s, the banking sector has gone through several waves of reforms (Frenkel, 1999). These reforms advanced a series of important institutional changes that signified a far-reaching transformation of the financial system from a state-led and bank-based structure to a far more market-based arena (Maman & Rosenhek, 2012). The domestic credit provided by the banking sector at its peak in 1984 was reported to be 208 percent of GDP, but since the 1990s it has been barely circa 85 percent of GDP (World Bank, 2018). Despite the above, the banks still hold a privileged position in most aspects of financial activity in Israel (Bank of Israel, 2019, p. 21).

Since the mid-2000s, the banking sector has been coping with numerous external pressures on their business model, led mostly by the MoF and the Israeli parliament (Knesset), threatening the traditional hegemony of the banks (Plato-Shinar, 2016). One of the most prominent actions was the capital market reform of 2005 (initiated by what was known as the "Bachar Committee"), which forced the banks to sell their holdings in provident and mutual funds to insurance companies, private investment houses and foreign financial bodies (Ministry of Finance, 2004). At about the same time, Members of Parliament (MoPs) chose to intervene significantly in banking fees (Knesset, 2007) . In addition, there was a sharp rise in the number of private bills of MoPs against the banks, changing the latter's relative negotiating position and rendering them more susceptible to regulatory intervention in the form of *regulation for competition* (e.g. Levi-Faur, 2005).[5] Following that, Bank Hapoalim established a GAD at the end of 2005, Bank Leumi did so in 2006, and in 2007 Bank Discount followed suit.[6] In the years that followed the position of these GADs frequently varied within the banks' corporate structure (see Table 2 below).

During these years the difference began to become apparent between the two polarized schools of the Knesset and the main banking regulators: at one end of the spectrum is the Knesset, which has constantly prioritized the consumers' interests. At the other end stand the main banking regulators: the Bank of Israel (BoI), the Israeli central bank, which has accumulated formidable institutional and political power and autonomous capacities (Maman & Rosenhek, 2011); and the Banking Supervision Department (BSD) – a statutory unit within the BoI, whose main mandate is banks' financial stability (Plato-Shinar, 2019, pp. 10-18). For example, during the battle over reforming the banking fees, the BSD, in contrast to the Knesset, did not consider a systematic intervention in order not to harm the banks' stability (Gilad, 2015). Furthermore, another means used by the BSD to block any populist legislative intervention by the Knesset that might harm the banks' stability is through the Ministerial Committee for Legislation. Indeed, the main criticism against the banking regulators over the years has been that in the name of stability they will not do anything that might endanger not only the banks' stability, but even their profitability (Plato-Shinar & Borenstein-Nativ, 2017). Accordingly, as stated by one of the interviewees: "over the years, the banks were unable to block or change reforms in the Knesset altogether by their lobbying. This made the banks define the Knesset as 'a lost arena' and become dependent on the protection they received from the BSD."[7]

As far as external influence on the GADs goes, the next milestone was the establishment of the Committee to Enhance Competitiveness in Common Banking and Financial Services (known as the "Strum Committee"), initiated by the Ministry of Finance (MoF). The Strum Committee published its report in 2016 (Banking Competition Committee, 2016), suggesting that competition be enhanced in the consumer lending sector of the credit market—chiefly by

[5] Interviewees #1 #2 and #11.
[6] Interviewee #16.
[7] Interviewee #14.

forcing the two largest banks to sell their credit-card companies (OECD, 2019, pp. 10-11). Indeed, in this issue also the BSD's consistence in prioritizing the maintenance of the banks' stability was reflected in the anger against it in the Knesset (Avissar, 2016). However, the banks still had to negotiate with all the other policymakers. The Strum Committee's discussions therefore encouraged Discount Bank to reinstate the GAD it had closed ten years earlier following the replacement of the bank's chairperson.[8] Furthermore, Leumi Bank changed the position of its GAD within the corporate structure in 2016 following a criminal investigation by the American tax authorities and the United States Securities and Exchange Commission. As one interviewee noted, "The American event was a traumatic one for the bank, which resulted in an organizational change."[9] Consequently, Leumi Bank established the strategy and regulation division charged with, among other things, implementing the Strum Committee's recommendations and handling the regulation of international taxation (Leumi, 2017, pp. 254-255).

It is important to note that in addition to the privileged position of the banks in the regulatory arena, they also enjoy open access to the BSD without having to cultivate trust and long-term relationships to achieve this. For example, the Advisory Board of the Supervisor of Banks, with which the Supervisor consults in the promulgation of new directives, contains 19 members of which 8 are representatives of the banks. Needless to say, this structure not only allows the banks to express their views, but also affords them the opportunity to convince the Supervisor to adopt a policy that suits their needs (Plato-Shinar, 2016, p. 15). In comparison, in other sectors there are no industry representatives at all. They can only express their views in respect of new directives by providing responses to drafts published by the Commissioner during the rule-setting process.

Table 2 below summarizes the changes to the Israeli banks' GADs over the years. External factors were the driving force behind the emergence of GADs. When the GADs were established, their location in the corporate structure was often a personal issue, as reflected also in previous studies (e.g. Coen & Willman, 1998; Moss et al., 2012). However, the frequent changes to GADs over the years mostly occurred in an unplanned manner or, in other cases, as part of internal organizational processes such as the replacement of the chairperson, the CEO or the GAD manager, a corporate restructuring designed to cut costs or a round of internal

[8] Interviewee #16.
[9] Interviewees #3 #23.

management appointments, rather than with reference to how GAD functions are viewed and expected to relate to political strategy.[10] There were numerous instances of newly appointed GAD managers, who repositioned the department in the corporate structure (see Table 2, e.g., Hapoalim – October 2010; Leumi – April 2014, December 2016, and Discount – December 2009, November 2017). In some cases, a round of internal management appointments led to reorganization of the GAD. For example, in January 2018, the manager that served as Head of Stakeholder Relations in Hapoalim Bank was appointed to the position of Chief Legal Advisor. Following that, the GAD was transferred from stakeholder relations division to the legal affairs division (Hapoalim, 2018).[11] The frequency of changes and the type of changes the GADs have undergone over the years demonstrates that the banks did not embed their GADs in the corporate structure.

Insert Table 2 about here

I do find that given the privileged position of the banks in the regulatory arena, it was not necessary for them to embed consistent mechanism of interaction with their regulators in the corporate structure. The protection they received from the banking regulators and their open access to them attenuated their need to embed organizational routines of trust relationships and ‘regulatory expertise’ while maintaining long-term relationships with their main regulators. As a result of their privileged position in the regulatory arena, their interests enjoyed over-proportionate consideration in the formulation of policy, even if they abstained from direct political activity. Even though the banks see the parliamentary arena as a ‘lost arena’ in terms of their political activity, they nonetheless rely on the protection they receive from the BSD. This protection of the maintenance of the banks’ financial stability also explains why despite the reforms over the last three decades, the banks still enjoy a privileged position in most aspects of financial activity in Israel. Or as one of the interviewees put it, “the banks are

[10] Interviewee #11.

[11] In March and in August 2019, Leumi Bank did some additional repositioning of its GAD, following the CEO’s replacement. Since this goes beyond the timeframe of the research, it was not included.

protected by the BoI, which is the most powerful and independent regulator in Israel; without this protection the banks would lose in most of their political struggles."[12]

Comparative Analysis: Explaining the Uniqueness of GADs in the Banking Sector

This section explores the second hypothesis by tracing the changes to the GADs in non-banking sectors and comparing key sectoral components.

Hypothesis # 2: *This is a broader phenomenon that characterizes Israeli firms from heavily regulated sectors in general and it is not unique to the banking sector.*

The empirical findings suggest that there are several common characteristics across all five sectors, some of which seem to be reflected in previous studies: larger firms tend to sustain GADs and be more politically active than smaller firms that do not maintain GADs; there is no single ideal GAD structure, i.e., firms perform CPA through either a GAD or other units such as public affairs or regulation and corporate communication divisions, or as a sub-function in the legal division,. Furthermore, firms make large use of external consultancy firms, and hire managers with educational backgrounds in law or economics and work experience in the public sector or as journalists (Doh, Lawton, & Rajwani, 2014; Hawkinson, 2005; Post, 1993; Richards, 2003). The Israeli GADs are relatively small, with an average of five employees who report directly to the CEO or a senior manager, and their regulatory process is managed like any other risk (e.g. Hapoalim, 2017, p. 96). Furthermore, these sectors have considerable lobbying power, i.e., their high profitability and large financial resources allow them to hire the most prominent and well-experienced lobbying firms in the country to participate in the Knesset debates on their behalf. Similarly, they can afford to hire the best professionals in the market and provide the policymakers with opinions and reports that are biased towards their interests.[13]

Furthermore, since the early 2000s the researched sectors, like the banking sector, have undergone an intensive and relatively rapid process of liberalization, including a series of regulatory reforms and regulatory actions to encourage competition (Maman, 2017; Mandelkern, 2017). Furthermore, their business environments are characterized as dynamic and influenced by rapid technological changes (OECD, 2016, 2018), which means the firms

[12] Interviewee #21.
[13] Interviewee #10.

in these sectors have had to modify their political activity to meet these challenges. In addition, the mass Socioeconomic Protest, which took place in Israel during summer of 2011, initially focused on cost of living-related issues such as housing and pricey dairy foods and on consumer interests in general, creating a powerful incentive for politicians and bureaucrats to consider the interest of consumers and develop tools to intervene in their behalf (Gilad, Alon-Barkat, & Weiss, 2018). It therefore marks a watershed that impacted the business environment of all the researched sectors tremendously. After the protests, various government bodies and committees appointed on their behalf began to formulate legislative recommendations to increase competition and lower retail prices (Bank of Israel, 2013; Committee for a Social-Economic Change, 2011; OECD, 2016, pp. 22-24).

In the telecommunications sector, the first GAD in Israel was established in 1998,[14] as the sector faced, among other reforms, reductions in interconnectivity tariffs, full mobile number portability and mergers during the early 2000s (OECD, 2011, p. 43; 2016, pp. 27, 45; 2018, pp. 119, 141-142).[15] Both the commercial TV sector (OECD, 2011, pp. 81-82; 2019)[16] and the multi-channel TV sector (OECD, 2011, p. 82)[17] experienced a series of reforms that attempted to increase diversity and competition. The television advertising market has been adversely affected by the Socioeconomic Protest. Following rapid technological changes, other players joined the sector (e.g., Google, Facebook and Netflix) without being subject to the same strict regulation as the commercial channels. All these factors put pressures on the channels' profits, forcing them to adapt their business models.[18]

Finally, the food and beverages sector[19] faced *regulation for competition* in the wake of the Socioeconomic Protest as an attempt was made to boost competition and lower retail prices in the food and consumer goods industries (OECD, 2016, pp. 3, 22-24 ; OECD, 2018,

[14] Interviewee #8.

[15] The telecommunications sector is characterized by technology mergers; there are three groups: Bezeq (Pelephon, Yes and Bezeq International), Cellcom (which bought the ISP company Net Vision) and Partner, which bought 012 Smile. The groups provide media and multi-telecommunications services.

[16] The sector includes: Channel 13 (Reshet) and fourteen regional radio stations, which do not have GADs, and Channel [12] (Keshet) and Channel 10. On January, 2019, Channel 10 merged with Channel 13 .

[17] The sector includes: YES (whose major shareholder is Bezeq) is the sole satellite TV company in Israel and HOT is a group of communication companies. The group provides media and multi-telecommunications services.

[18] Interviewee #19.

[19] The sector is made up of more than 1,800 food processing facilities and 132 beverage plants. Moreover, the sector is highly centralized, with the five largest groups—Osem-Nestle, Strauss-Elit, Unilever, Tnuva, and the Central Beverage Company (Coca-Cola Israel)—accounting for 40 percent of all retail sales and 65 percent of major suppliers. Since Osem-Nestle has had a GAD for less than five years, it was not included in this research, whereas Unilever does not have a GAD at all.

p. 51).[20] For instance, during 2015-2016 the "Cornflakes Reform" that was intended to increase the supply of imported food was rolled out to enable parallel import. The Israeli government has been implementing new labeling regulation that requires red labels on foods high in sodium, fat, and sugar to warn consumers (OECD, 2019). Table 3 below summarizes the comparison of the key sectoral components and demonstrates the similarity across the sectors.

Insert Table 3 about here

There are nonetheless salient differences between the banking sector and the other sectors regarding the frequency of changes to GADs as reflected in Figure 1 below. Here are some explanations regarding the way I calculated the frequency of changes to GADs in the five sectors (see also: Appendix A): Changes per year amounts to the total number of changes divided by the average age of all GADs in each sector.[21] This calculation reflects both the number of firms in each sector and the total number of years since the establishment of the GAD. Nevertheless, the findings in Figure 1 clearly indicate that in the banking sector changes to GADs occur approximately every year on average, while in the food & beverages sector such changes occur every eight years on average. The second sector that has experienced frequent changes is the telecommunications sector, mainly due to authorities' conflicts with the GADs and the legal division of Partner Company.[22] When I asked the interviewees about the structural stability of their GADs, several interviewees observed that they seek to have a structured relationship with the politicians and the regulators because it has proven to be of benefit to the firm. Moreover, structural stability of the unit also helps to cultivate organizational and systemic memory and is good for efficient work with other units in the firm.[23]

Insert Figure 1 about here

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[20] Interviewee #15.
[21] There are cases with more than one change in a single year, because I count every type of change as a separate change.
[22] Interviewees #8 #28 and Interviewee #29.
[23] Interviewee #15.

The empirical findings also suggest that the banking sector differs from the other sectors when it comes to changes in the location of GADs in the corporate structure due to internal organizational factors such as the replacement of a CEO that is common in the banking sector. There have been several instances of a CEO's replacement in the non-banking sectors which did not lead to changes to the GAD, including Bezeq (2012, 2018), Cellcom (2003, 2005), Channel 10 (2012, 2014), Coca Cola (2016) and YES (2003, 2006).

Furthermore, the banking sector differs from the other sectors as regards its main regulator's mission. In other sectors, the regulators' primary task is to increase competition and consumer protection. As mentioned above, however, the BSD's main mandate is regulation of the banks' financial stability, which lies at the root of its organizational identity. Consequently, it accords the banks protection due to their privileged position in the Israeli economy, i.e., maintains the profitability of banks for the sake of the stability of the entire banking system. This is also expressed in the words of one of the interviewees: "The BSD's main goal is to maintain the banks' stability rather than encourage competition, as evidently, no new bank was established in Israel during the last decades".[24]

In summary, in recent years, all five sectors have had to tackle external political, public and technological pressures on their business models. Figure 1 displays the prominent differences between the banking sector and the other sectors in terms of the frequency of changes to GADs. Furthermore, the empirical findings show that the GADs in other sectors are characterized as stable, which indicates that they are embedded in the corporate structure. What further reinforces this is the marginal effect that internal organizational factors have had on the GADs' corporate structure, contrary to the banking sector. Even more importantly, the protection the banks receive from their regulator, which is a derivative of their privileged position, is unique to them. All of the above, then, militates against the second research hypothesis and in favor of the first.

Conclusion

This study offers some valuable insights into the unique macro-sectoral characteristics of the banking sector, as prior research has thus far not fully addressed how the privileged

[24] Interviewee #13.

position of business affects the embeddedness of GADs in their corporate structure. Using the case of the Israeli banks' GADs, this paper provides a novel linkage between two bodies of knowledge, drawing on arguments from the business power literature and incorporating them into the CPA literature.

According to previous CPA studies, firms embed their GADs in their corporate structure due to their need to establish regulatory consistency mechanism, which will form the basis for timely information gathering, regulatory expertise and long-term relationships, specifically with the political and regulatory publics, which are then translated into formal organizational routines and structures. However, the Israeli banks have not embedded their GADs, as compared to the non-banking sectors. I find that given the banks' privileged position in the regulatory arena, it was unnecessary for them to embed a consistent mechanism of interaction with their regulators in the corporate structure. The Israeli banking sector occupies an important structural position in the economy; the structural power of capital is expressed in practice by regulators that protect capitalists' interests, i.e., protect the banks' financial stability. The protection the banks receive also in the parliamentary arena and their open access to the regulators attenuates their need to embed a consistent mechanism of government affairs in their corporate structure. In the absence of a consistent mechanism, the frequent changes to GADs over the years have been mostly due to internal organizational factors. These insights draw on the arguments from the business power literature, which emphasizes that political strategy and the privileged position of business often work together, incorporating them into the CPA literature. Indeed, we cannot understand the way banks embed the GADs in their corporate structure without addressing their privileged position in the economy.

So why do the Israeli banks have GADs? It's because other firms have, and also because they need a function that integrates the following aspects: non-market strategy inside out, and work with the banking regulators, the AoB and the lobbying company. Yet the banking regulators have a dominant role in their political activity and without their protection the banks, especially the duopoly, would lose in most of their political struggles.

We can conclude by saying that from a bank CEO's standpoint, as advantageous as the privileged position may be, it has its costs. A short-term focus instead of a long-term one, inconsistent mechanism and frequent changes to their GADs can come at the expense of the bank's political ability in the future. Consistent mechanism can provide clear regulatory accountability and accrual of knowledge within the bank based on expertise and trust, but not necessarily when banks frequently make changes to their GADs.

This study is not without its limitations. The case study focused on the Israeli banking system, which is relatively small and concentrated, making it possible to cover almost the entire sector and conduct an industry-wide analysis. However, differences in culture, regulatory environment or legal landscape can clearly matter. Furthermore, the main limitation of the comparative method is that societies and systems differ in so many ways that they may not always be compared meaningfully (Miles & Huberman, 1994). Overall, keeping the above limitations in mind, the analysis of the various sources allowed me to capture the independent variable. Furthermore, I believe that the methodological approach taken by this study yields reliable explanations that can be carefully generalized with the appropriate reservations.

Last but not least, to fully unravel why the banks have not embedded their GADs, future study may address the micro-level analysis, i.e., focusing in the internal pressures (e.g. Griffin & Dunn, 2004). Additionally, future study may address the effect of privileged position on the organization of the broader function of CPA and what its implications are, throwing light on the effectiveness of CPA. Furthermore, some of the core ideas broached in this paper have broader applicability and may also offer new avenues for research.

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Supplementary Appendix

APPENDIX A: CHANGES TO GADs IN FIVE SECTORS (1998-2018)

Firm has a GAD	Total Number of Years the GAD Exists	Total Number of Changes to GADs	The Main Reasons for Changes
Banking			
Bank Hapoalim	13	4	Internal organization factors
Leumi Bank	12	6	Internal organization factors, outside pressures
Discount Bank	11	3	Internal organization factors, outside pressures,
Telecommunications			
Partner Communications Company Ltd.	20	3	Authorities' conflicts with the legal division
Cellcom Israel Ltd.	17	1	Financial downsizing
Pelephone Communications Ltd.	17	1	Senior executive exchange
Bezeq The Israeli Telecommunication Corp Ltd.	12	0	
Multi-Channel TV			
YES, D.B.S. Satellite Services (1998)	20	1	Senior executive exchange
HOT	10	1	Evolution stage
Commercial TV			
Channel 12 (Keshet)	12	1	Evolution stage
Channel 10	16	0	
Food & Beverages			
Central Beverage Company (Coca Cola Israel)	10	0	

Firm has a GAD	Total Number of Years the GAD Exists	Total Number of Changes to GADs	The Main Reasons for Changes
Strauss Group Ltd. (Strauss-Elite)	7	0	
Tnuva	7	1	Financial downsizing

APPENDIX B: INTERVIEWS CONDUCTED

Organization Types	Number of Interviews
Banks	10
Telecom Firms	2
Food & Beverages Firms	3
Multi-Channel TV Firms	2
Commercial TV	2
Banking Supervision Department	2
Israel Competition Authority	3
The Association of Banks in Israel	4
Lobbying Consultancy Firms	4
Economic Newspapers	3

Tables and Figures

Table l: The Government Affairs Departments in the Israeli Banks

	Has a GAD	Does not have a GAD
Large Banks	✓	
Mid-Sized Banks	✓	✓
Small Banks		✓
Foreign Banks		✓

Table 2: The Changes of the Israeli Banks' GADs Over the Years (2005-2018)

Bank Hapoalim B.M.				
	12/05-6/10	10/10-12/16	2017	1/18-current
Reporting to	CEO	Senior Manager	Senior Manager	Senior Manager
Type/ Location	Independent unit within corporate centre	Small unit within marketing strategy and community affairs division	Small unit within stakeholder's relations division	Small unit within legal division
Bank Leumi Le-Israel Ltd.				
	12/06-3/11	3/11-4/14	4/14-12/16	12/16-3/19
Reporting to	Senior manager	CEO	Senior manager	CEO
Type/ Location	Small unit of public affairs, regulation, and spokesman within marketing division	Small unit within marketing, advertising and spokesperson division	Small unit within legal division	Independent unit in corporate centre - strategy and regulation affairs division
Israel Discount Bank Ltd.				
	11/07-11/08	11/08-12/09	12/09-11/17	11/17-Current
Reporting to	Senior manager	Senior manager	No GAD	Senior manager
Type/ Location	Small unit within marketing Division	Small unit within legal division		Small unit within legal division

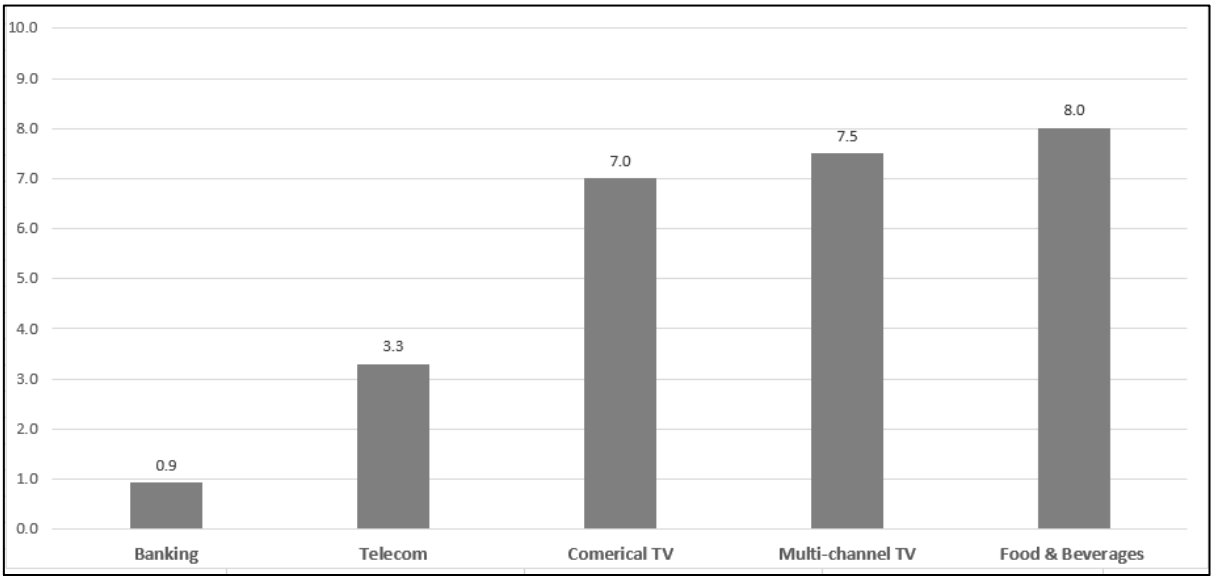
Source: Websites, firms' publications, and interviews.

Table 3: Key Sectoral Components

	Banking	**Telecom**	**Multi-Channels TV**	**Commercial TV**	**Food and Beverages**
Nature of Markets	National/ International	National	National	National	National/ International
Nature of Environmental Changes	Changing industry structure, competition, technological innovation	Changing industry structure, competition, technological innovation	Changing industry structure, competition, technological innovation	Changing industry structure, competition, technological innovation	Competition, technological innovation
Environment Stability	Traditionally stable, but changing	Rapid change	Rapid change	Rapid change	Rapid change
Degree of Regulatory Uncertainty	High	High	Medium	Medium	High
Affected by the Social Protest	High	Medium	Medium	High	High
Main Regulator	Bank of Israel (BOI) and The Bank Supervision Department (BSD),	Ministry of Communications (MoC)	Cable and Satellite Broadcasting Council in the MoC	The Second Authority for Television and Radio	Ministry of Health

Source: Websites, firms' publications and interviews.

Figure l: The Frequency of Changes to GADs in Five Sectors (in Years)



Source: Websites, firms' publications and interviews.

CHAPTER 3

Financial Governance in a Neoliberal Era: Controlling the Banks by Controlling their Managerial Recruitment Sources

This chapter presents a manuscript accepted for publication at the *Journal of Banking Regulation.*

Financial Governance in a Neoliberal Era: Controlling the Banks by Controlling their Managerial Recruitment Sources

Abstract

This paper asks: *What* are the factors that affect the recruitment sources of the two most senior management functions in banks – the board chairperson and the chief executive officer? Prior research has focused on the factors affecting the recruitment sources of senior management in corporations in general and has accorded less attention to banks. Therefore, research thus far has not fully accounted for the ability of banking regulators to affect the recruitment sources of these managers. The paper applies an in-depth qualitative study to delineate the recruitment sources of the chairpersons and the CEOs, from the inception of the State of Israel in 1948 to 2019, asserting that Israel's central bank affects the recruitment sources of the banks' chairpersons and CEOs through both *formal* and *informal* measures. This has enabled the banking regulators to wield influence over the banks and maintain their financial stability in the long run. The paper can thus be read as part of a wider effort to demonstrate that even in the neoliberal era, state actors are still key players.

Keywords: Managerial recruitment sources, corporate governance in banks, banking regulators, state capacity, Israeli political economy

Introduction

The possible link between the professional profile of the banks' senior managers and the 2008 global financial crisis has placed the Recruitment Sources (RS) of these managers on the front burner.[1, 2] In a broader context, this paper asks: *What* are the factors that affect the RS of the two most senior management functions in banks – the Chairperson of the Board and the Chief Executive Officer? I do not include here the cases addressing duality – that is, the same person serving simultaneously as chairperson and CEO,[3] as is the case in most of the largest corporations in the United States.[4] Instead, I focus on the chairperson and CEO positions as two separate, distinct roles, as for instance in Israel,[5] Britain,[6] Germany, and Japan.[7] The influence of British corporate law is salient in Israeli corporate governance, the result of over three decades of British Mandate rule. As in Britain, companies in Israel have a single board of administration, and the board of directors constitutes the locus of control within the enterprise and is legally responsible for the company's affairs.

Prior research has separately addressed the respective professional profile of chairperson and CEOs. This study focuses on the professional profiles of both roles taken together, which has more to do with their RS than with characteristics such as age, gender, tenure, functional, educational and demographic backgrounds, etc. Most research on the career specializations of CEOs has focused on the relationship between these characteristics and their impact on corporate outcomes, or on how the CEO's characteristics affect the approach a firm takes when investing in corporate political activity.[8, 9] The scholars who focus on the chairperson/directors are mainly concerned with corporate governance[10] and board composition.[11, 12] Nevertheless, prior research has tended to focus on state intervention in corporate governance,[13, 14] and even studies that have focused on the factors affecting the RS of senior management in corporations have dedicated less attention to banks. Therefore, research has yet to fully account for the banking regulators' ability to influence the RS of these managers to maintain bank stability. Using the Israeli banking sector as a case in point, this paper aims to bridge this gap in the literature.

This study analyzes the RS of the chairpersons and CEOs in the five major Israeli banks, from the inception of the State of Israel in 1948 to 2019. The research questions are: *What* were the recruitment sources of the chairpersons/CEOs during the timeframe of this study? *How* did these sources change over the years and *how* can we explain these changes? To address these questions, I constructed an original dataset of the professional profile of all 87 former and incumbent Israeli bank chairpersons/CEOs during the timeframe of the study in the five major Israeli banks. The dataset includes data on the professional profiles of chairpersons/CEOs, drawing on a new typology of RS I devised for that purpose. The typology is made up of five RS types: Institutional, Bureaucratic (two types), Professional Bankers and Loyalists of the Controlling Shareholders.

The findings from an in-depth qualitative study illustrate that in the initial years of Israel as an interventionist state, the main RS of the banks' chairpersons/CEOs was Institutional[1] – that is, the managers were affiliated with the political parties or had ties with state institutions in Israel's inception years. Since the early 1980s, the banking regulators have played an active role in introducing managers of the Bureaucratic RS type into the banks in an attempt to promote the state's interests and prioritize the banks' stability. Since the mid-1990s, these

[1] This in line with earlier empirical findings, see [15, 16].

regulators have continued to play a decisive role in affecting the RS types of senior management in the Israeli banks, despite the shift from an interventionalist to a neoliberal state.

Studies dealing with the state-centered approach informed the theoretical framework for this study. The main banking regulators in the Israeli banking sector are the Bank of Israel (BoI), the Israeli central bank, which has accumulated formidable autonomous and bureaucratic capacities,[17, 18] and the Banking Supervision Department (BSD), a statutory unit within the BoI; the BSD's primary mandate concerns regulation of the banks' financial stability.[19] This study asserts that the main banking regulators affect the RS types of the banks' chairpersons/CEOs through both *formal* and *informal* measures to maintain their long-term financial stability. However, since 2012, banks have also been operating *with no* controlling shareholders, marking the shift from *owner-control banks* to *management control banks*. Consequently, the banking regulators' influence has decreased because the chief influence on the identity of chairpersons/CEOs lies with the bank's various shareholders.

The paper is structured as follows: The next section presents a brief overview of the areas of literature pertinent for explaining the uniqueness of corporate governance in banks and the factors that affect the professional profile of the chairperson/CEO. The third section provides the research design and the findings. The fourth section presents the qualitative findings in a historical context. The penultimate section lays out the main claim. The final section concludes with some of the broader implications and limitations of the case study.

Literature Review and Paper Contribution

This section explains the uniqueness of corporate governance in banks and provides an overview of the pertinent literature on the factors that affect the professional profile of corporate chairpersons/CEOs. This review demonstrates the dearth of literature on how state actors can affect the RS of these managers and underlines the literature's lack of attention to banks in particular.

Corporate governance in banks

Corporate governance can be simply defined as "the system by which companies are directed and controlled".[20] Yet, corporate governance of banks and other financial institutions differs considerably from general corporate governance because of their central role in the economy. The banking sector often occupies an important "structural position" given its indispensable role in sustaining productive sectors throughout the economy and providing the vital liquidity and capital that every modern economy needs to "breathe", function, and grow. Thus, banks are subject to stricter regulations in comparison with other corporations.[21, 22] The 2008 global financial crisis sharpened our understanding that the banking sector is a unique sector.[23] The unique aspects of banks include the very low capitalization of banks compared to non-banking entities; the complexity and non-transparency of banks' business activities and structures; the fundamental need for trust and the associated danger of bank runs; and, in particular, the macroeconomic function of banks as manifested in their central importance for the economy, which in turn subjects them to far-reaching legislation and state regulation.[24]

The Basel Committee on Banking Supervision, the world's leading authority on banking regulation and banking supervision, begins its 2015 *Corporate Governance Principles for Banks* with the words[2]: "Effective corporate governance is critical to the proper functioning of the banking sector and the economy as a whole".[26] Many other supervisory institutions, including the BoI,[27] have followed this lead with their own principles and guidelines for good governance of banks. Furthermore, in the European Union, this has led to legislation on bank governance under the CRD IV (Capital Requirements Directive), which has been transformed into the law of the Member States.[28]

The regulatory core issues for the corporate governance of banks are manifold: the composition and qualification of the (one-tier or two-tier) board; the duties and liabilities of bank directors, in particular, as far as risk and compliance are concerned, but also the remuneration paid to bank directors and senior managers or key function holders.[29] Pertinent to this study, the distinction between the respective roles of the banks' chairpersons and CEOs can be expressed as following: The chairperson is the leader of the board of directors, which monitors the bank's management. The directors and the chairperson are voted into office by stockholders and have a fiduciary responsibility to protect stockholders' interests. Along with their legal duties of reviewing the corporation's major plans and actions, they are charged with selecting, compensating, evaluating, and, when appropriate, dismissing the CEO and other senior executives.[30] The CEO reports to the board of directors and is responsible for the overall operational performance of the bank and its achievements in terms of growth and profitability. The CEO is in charge of realizing the strategic direction set by the board, and ensuring the

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[2] The special role of banks as recognized by the Basel Committee subscribes to the OECD's description of corporate governance.[25]

delivery of strategic and operational key performance results and outcomes across the organization.[31]

Accordingly, the literature on corporate governance in banks is mainly a doctrinal legal presentation, offering commentary on the actual supervisory laws as referenced in this section. However, it does not address the ability of banking supervisors to affect the RS of top bank executives.

The professional profile of corporate chairpersons/CEOs

While the chairperson's professional profile is considered central to corporate governance, the literature has focused instead on board composition.[32] For instance, the *resource dependency* lens views corporations as operating in an open system that needs to exchange and acquire certain resources in order to survive, thus creating dependency between the corporations and external units. As corporations seek linkages with the most beneficial resources, the corporate board and its chairperson serve as a mechanism for managing external dependencies.[33, 34] Today's increasingly complex and uncertain environment requires leadership from individuals who can provide a breadth of resources including prestige, legitimacy, and diversity, as well as financing, industrial, functional, and geographic knowledge.[35]

Several studies adopted an *agency theory* approach, which describes the relationship between a principal (e.g., a shareholder) and the principal's agent (e.g., directors and CEOs). According to agency theory, the distinction between the ownership of a company and the control over it can create potential conflicts of interest and detract from the firm's performance and the investors' welfare. Thus, the agency role has also been termed the "control role" of boards. When the strategies of incumbent managers are ineffective, directors are expected to take action in order to improve corporate performance. This may include dismissing senior executives and recruiting new managers to reduce the potential conflicts,[36, 37] and this can influence the professional profile of the selected managers.

One may argue that *social network* theory predicts that individuals with access to resources valuable to the company are likely to have the best chance of entering the elite network. Chairpersons, directors, and CEOs are nodes in a network of organizational linkages; they contribute resources such as information and knowledge to their organization and to other members of the network, sharing power and acting as a socially cohesive group. The board and its management are privileged close-knit groups with their own rules and ways of thinking. These groups invite other like-minded colleagues to join them, knowing that the newcomers are likely to fit the existing mold. As powerful positions are a marker of relevant experience, contacts, and endorsement, those who have held senior management positions are particularly attractive to the network.[34, 38]

More generally, this paper is connected to the *revolving doors* literature, which asserts that corporations can utilize what is referred to as "industry-specific human capital" – a type of political connectedness that helps corporations have their own way in terms of public policy.[39, 40] Corporations have multiple reasons for recruiting former public servants. In the EU, for instance, corporations recruit former public servants for senior management mainly because of their expertise and experience.[41] However, in the U.S., the body of work on revolving doors suggests that corporations recruit managers with experience in the public sector principally because of their personal contacts and their presumed high level of access to and influence on public figures. Therefore, the main recruitment sources are the political parties[42, 43] and former lobbyists.[44]

Taking prior literature into consideration, this study adds a different theoretical lens and draws on the state-centered approach in analyzing the factors that affect the RS of chairpersons/CEOs.[45-47] It does not offer an exhaustive review of recent literature or intellectual genealogy of the different schools of thought. Rather, the study focuses on the capacity of state actors to implement their policy agendas, while underscoring bureaucratic expertise and state authority.[48-50] According to this perspective, state actors create and implement policies arising from their own expert training and commitment to public service, rather than as a response to pressure from social forces.[51, 52] This study supports the perception that while the interventionist state has been transformed, it continues to play a critical role in structuring economic processes through the purposive construction of financial and other markets.[53]

In the era of neoliberal economics – which emphasizes a more individualistic view, with a free market orientation and autonomy of the economic sphere from state intervention – the state has not lost its centrality, paramount importance, control, and mode of involvement in the economy.[54, 55] Furthermore, the state has not withdrawn from the economy; instead, it has changed its institutional configuration, goals, and mode of involvement in the economy, with state actors becoming participants in the financial markets.[56] For instance, Vogel (1996) argued that in the advanced economies of the U.S., Western Europe, and Japan, there are stronger markets but not weaker governments.[57] Furthermore, all states – including the U.S., which is considered a noninterventionist state – have the capacity to shape corporations.[58]

Scholars have reviewed and analyzed different modes of state intervention in corporate governance. Focusing on the legislation of the new corporate law in Israel at the end of the 1990s, Maman (2004) argued that the power of the state to shape corporations via Corporate Law depends on both the internal governance of corporations—how authority is distributed among owners, directors, and managers—and the environment in which corporations operate.[59] Licht (2012) argued in the same vein that the state can regulate the personal composition of boards of directors to make these boards more likely to pursue goals the state considers desirable.[14] Nevertheless, as noted, research on state intervention in corporate governance, and even studies that focused on the factors affecting the RS of senior management in corporations, have not addressed the way state actors can affect both roles of chairperson and CEO, and this lack of attention is especially salient in the case of banks. Therefore, research thus far has not fully accounted for the ability of banking regulators to affect the RS of these managers. This paper aims to bridge this gap, offering a fresh analysis that sheds light on the ways the banking regulators wield control over the banks, even in the neoliberal era in diverse and creative ways.

Research Design and Findings

This study is a case study[60] uses the process-tracing methodology[61] to glean information about the recruitment sources of the chairpersons/CEOs of Israeli banks from the inception of Israel in 1948 to 2019. I constructed an original dataset of the professional profile of all 87 former and incumbent Israeli chairpersons/CEOs during the timeframe of the study in the five major Israeli banks. The dataset includes data on the professional profiles of bank chairpersons and CEOs, drawing on a new RS typology I devised for that purpose. The typology is made up of five RS types: Institutional, Bureaucratic (1)[3] and Bureaucratic (2), Professional Bankers and Loyalists of the Controlling Shareholders (hereinafter: Loyalists) (see Table 1 below).

Israel's concentrated banking system consists of five banks that hold 94% of the system's assets in a duopoly market structure, with the two largest banks (Bank Hapoalim and Bank Leumi Le-Israel) controlling 55% of the market, and three medium-sized banks (Israel Discount Bank, Mizrahi-Tefahot Bank, and First International Bank of Israel) holding the remaining 45%.[62] The data collection tapped into secondary sources such as the banks' annual

[3] For methodological clarifications, see Appendix D.

financial reports and websites, as well as articles published on economic news sites (*Globes*, *Haaretz*, and *Calcalist*), and the data was cross-checked in Google searches for the names of the bank chairpersons and CEOs. Furthermore, I conducted five semi-structured interviews with open-ended questions; the interviews ranged in duration from one hour to 90 minutes.[63] The interviewees were former regulators and bank chairpersons who were promised confidentiality. The main purpose of the interviews was to complete missing data and understand *de facto* the selection process of the chairpersons/CEOs.

Insert Table 1 about here

Here are some explanations regarding the ways I handled the data: First, I coded the types of RS according to the five RS types and entered the relevant code for the chairpersons/CEOs of each bank (see Appendix A). Second, I organized the data into two main groups (chairpersons and CEOs) by RS types, without any bank affiliation. Third, to cope with the wide range of years, I clustered the data into groups of five years, which makes the graphic display much easier to understand. Fourth, I regrouped the data into four periods consistent with the changes in the banks' ownership structure and chose the *common* RS type for each period. Finally, I converted the data to show the percentage of all bank chairpersons or CEOs from each type of RS.

The qualitative research findings

Figures 1 and 2 below show the distribution of RS types of chairpersons and CEOs by time periods. The division to time periods is further discussed in the section below, where I focus on the changes of the RS type consistent with the changes in the banks' ownership structure. The data indicates that the main RS of both chairpersons and CEOs was Institutional between 1950 and 1979, and that RS varied considerably in subsequent years. During the years 1980-1994, the CEOs were mostly Professional Bankers, while the main RS type of the chairpersons was still Institutional. The predominant RS types in 1995-2009 were Bureaucratic (1) and Loyalists for chairpersons, and Professional Bankers and Bureaucrats for CEOs. It is noteworthy that from 2012-2019, the proportion of the Professional Bankers RS type increased for both chairpersons and CEOs: For chairpersons the increase was from 3% to 30%, and came at the expense of the Loyalist type, which decreased from 57% to 24%. For CEOs, the rate of the Professional Bankers RS type increased from 33% to 56% at the expense of the two Bureaucrat types, which together decreased from 51% to 24% (see Appendix B).

Insert Figure 1 and Figure 2 about here

To obtain a more striking and longitudinal view of the transition from Bureaucrats to Professional Bankers, I grouped the data into three RS categories, as displayed in Appendix C: Bureaucratic (including Bureaucratic 1+2), Professional Bankers, and Other (including Institutional and Loyalists). What emerges from Figure 3 and Figure 4 further reinforces the data presented above. Since 2010, most of the CEOs have been Professional Bankers, and the chairpersons have followed the same trend. The data also demonstrates that, in line with the literature, the roles of chairperson and CEO are complementary.[64] For example, when 40% of the CEOs in 2000-2004 were of the Professional Bankers type, 40% of the chairpersons came from a Bureaucratic source.

Insert Figure 3 and Figure 4 about here

The Changes in the RS Types of Israeli Bank Chairpersons/CEOs

This section places the findings presented in the previous section in a historical context. The overview is divided into two main periods of state configuration (*interventionist* versus *neoliberal)*, and into sub-periods corresponding to variations in the banks' ownership structure.

The interventionist state: From Israel's initial years until the early 1990s

From 1948 until the early 1980s

Four of the five Israeli major banks were founded before the establishment of the state. Bank Leumi was established in 1902 as the *Anglo Palestine Company*, as a subsidiary of the Jewish Colonial Trust of the Jewish Agency. The Jewish Agency performed extensive financial functions via the main financial institution of the Zionist Federation—Bank Leumi, and together with the government invested in the country's infrastructure.[16] In 1951, the bank was renamed Bank Leumi Le-Israel, and when the Bank of Israel was founded in 1954, Bank Leumi became a commercial bank. Its chairpersons/CEOs were connected to the institutions of the Zionist Agency. In 1921, Bank Hapoalim was set up by the Histadrut (the main federation of labor unions); its chairpersons/CEOs were Histadrut members or Histadrut-affiliated individuals who were politically loyal and affiliated to the ruling Labor Party (*Mapai*).[65] Likewise, the Mizrahi Bank was founded in 1923 by the Mizrachi Movement, a religious Zionist organization that developed into a full-fledged political party.[4] The Mizrahi Bank's chairpersons/CEOs had direct ties to this political party.

The Discount Bank was a family-controlled business founded in 1935 as Eretz Yisrael Discount Bank Ltd. by Leon Recanati, Yosef Albo and Moshe Carasso, whose families came from Saloniki in Greece. They brought with them the capital and professional banking experience they had acquired abroad. Leon Recanati served as the bank's CEO and chairperson and was succeeded by his sons when he retired. The First International Bank of Israel (FIBI) was established in 1972, when the finance minister at the time, Pinchas Sapir, approved the merger of several smaller banks. The bank's primary investors were the State of Israel (through the FIBI Holdings Company) and the First Pennsylvania Bank.[5] The chairpersons/CEOs were former senior executives from Israel's industrial institutions, such as the Ministry of Commerce and Industry and the Israeli Export Institute.

In summary, the early years of Israel's existence can be characterized as a period of blurred areas of responsibility among the institutions and leadership of the ruling party, the state, and the *Histadrut*.[66] The government's control over the financial and capital markets was absolute. Within this model, banks served as an agent of the government and as a vehicle for promoting state interests and prioritizing rapid economic development.[67] As expressed in Figure 1 and Figure 2 above, the main RS type of the chairpersons/CEOs in banks with a political affiliation was Institutional, along with the RS type of Loyalty (to the family-controlled enterprise) in the privately owned banks. The managerial echelon consisted primarily of politically promoted cadres, as there was no place for professional managers or market forces.[16, 68] The few senior executives with a professional banking background had acquired it abroad.[6] The banks' corporate governance directives were formulated only in 1985,

[4] The political party was Poalei Agudat Yisrael.
[5] Following several years of activity, the First Pennsylvania Bank sold its share in FIBI to the Eisenberg Group in 1978, which sold its interest in the bank to the Danot Group barely one year later.
[6] Examples include the Recanati family at the Discount bank and Ernst Yefet at Leumi. Yefet's father was the founder of the Jaffa Bank in Berlin in the 1930s.

so there was no separation between the board of directors and management, and many executives served as both chairpersons and CEOs simultaneously (see Appendix A).

The nationalization of the banks (1980s-1994)

One of the critical events that led to a revolutionary change in the ownership structure of Israeli banks was the 1983 “share manipulation affair”. From 1977 to 1983, the largest banks had attracted massive amounts of private savings by illegally manipulating and inflating the prices of their own shares, and in the second half of 1983, their share prices listed on the Tel Aviv Stock Exchange (TASE) collapsed. After the bubble burst, the banks were publicly discredited, and the government temporarily nationalized their equity as part of the “bank shares arrangement”.[69] The state gained controlling stakes in four of the five major banks (Hapoalim, Leumi, Discount and United Mizrahi, which later merged and became Mizrahi-Tefahot). The shares of these four banks were delisted from trading on the TASE, with non-controlling shareholders receiving government bonds in exchange for their shares. The fifth bank, FIBI, was a family-owned bank[7] and did not manipulate its share prices.[19]

However, the state did not exercise direct management control over the banks it had temporarily nationalized. According to the bank shares arrangement, the government held these banks indirectly by means of a state-owned corporation — M.I. Holdings (State of Israel Properties) to avoid concerns of political influence over banking activities.[70] The Inquiry Committee Regarding the Bank Shares Manipulation (the Bejski Commission), established by the Israeli government in January 1985, issued a report on April 16, 1986 that called for the dismissal or resignation of the heads of the Israeli banking system, and permanently banning them from playing any further role in the banking system. Consequently, the chairpersons/CEOs who had served at the four banks during those turbulent years were forced to step down.[8]

To sum up this period, the aftermath of this affair marked the ascendancy of the Bureaucratic RS type (see Figure 1 and Figure 2). Bank chairpersons and CEOs were recruited from the BoI (former governors), the BSD (former supervisors of banks) and the Ministry of Finance (MoF), especially former directors-general and accountants general (see Appendix A). Following the traumatic episode of the “share manipulation affair”, state actors pushed behind

[7] In 1986, Jacque Nasser acquired a controlling share in FIBI Holdings, which he sold in 1990 to the Safra family.
[8] For example, see [71].

closed doors for chairperson candidates who would advance state interests and give priority to the bank stability, as I elaborate in the fifth section.

The neoliberal period: From the 1990s until 2019[9]

Banks with controlling shareholders (1995-2009)

Since the mid-1990s, the ownership of Israeli banks has moved into private hands. As shares were not directly owned by the government, the BoI and the MoF led this privatization process rather than the Government Corporations Authority. The BoI's preference for dealing with controlling shareholders considerably impacted the bank privatization program and the ultimate ownership structure of Israel's banking sector (as elaborated in the next section of the paper).[10] As part of the effort to privatize the state's holdings in the banking system, control in the Mizrahi-Tefahot Bank was sold to the Ofer-Wertheim Group in 1995, and Bank Hapoalim was sold to the Arison family in 1996.[74, 75] In April 2003, the Safra Group sold its control of FIBI to the Bino-Liberman Group, consisting of the investment company Bino Holdings and the Australian Liberman family.[76] The new controlling shareholder, Zadik Bino, announced several changes in FIBI's top management and appointed senior executives who had worked with him professionally over the years.[11] In 2006, Israel Discount Bank was sold to the Bronfman-Sharan Group.

In summary, bank chairpersons were typically from the Loyalists type in the wake of the privatization process or were recruited from the Bureaucratic (1) RS type. However, CEOs were recruited mainly from the Bureaucrats and Professional Banker RS types. The BoI's insistence that the banks be sold to private entities influenced the identity of the chairpersons/CEOs, because controlling shareholders tend to appoint managers affiliated with them. Moreover, as elaborated later, the controlling shareholders are most likely to appoint chairpersons who share the central bank's approach.

Banks with/with no controlling shareholders (2010-2019)

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[9] Since the early 1990s, the Israeli banking sector has undergone considerable liberalization, and the financial system has transformed from a state-led and bank-based structure to a far more market-based arena. See: Frenkel [72] Maman and Rosenhek [56,] Maman [67]

[10] "A principal shareholder"—anyone who holds more than 20% of any means of control.[73]

[11] An example of this trajectory is Smadar Barber-Zadik, appointed to head the bank's corporate division with the rank of deputy CEO.[77] In 2007, she was appointed to be the bank's CEO.

In December 2010, the Parliament Finance Committee approved the privatization of Bank Leumi, following the MoF's request to sell the state's remaining (11.45%) stake. The BoI governor, Stanley Fischer, and the supervisor of banks, Rony Hizkiyahu, objected to selling the state's share without first changing the law governing banks with no controlling shareholder.[78] [12] In January 2011, the government presented a bill to this effect, and in March 2012, the bill became law (known as the "Marani Amendment").[80] The main goal of the Marani Amendment was to strengthen the ability to supervise a bank *with no* controlling shareholders.[81] However, until early 2012, M.I. Holdings remained the controlling shareholder of Bank Leumi. Though it was not the largest shareholder, M.I. Holdings was the only shareholder with a control permit. Over the years, the government gradually sold off its holdings in the banks, but never managed to sell a controlling interest in Leumi. The Marani Amendment also allowed other banks to sell their controlling interest. In December 2013, Bank Discount became a bank with no core controlling interest.[82] On September 2018, the Israeli government sold its remaining stakes (5.4%) in Bank Leumi.[83] Since December 2018, Bank Hapoalim also has no controlling core and its shares have been fully held by the public, directly or through the institutional investors managing the public's investments and long-term savings. The bank's chairperson has continued to serve in his role after the change in ownership pursuant to the decision of the supervisor of banks.[84]

In summary, the RS type in this era was contingent on ownership structure: Banks *with* controlling shareholders (FIBI and Mizrahi Bank) tend to have chairpersons/CEOs of the Loyalists type, whereas banks *with no* controlling shareholders (Leumi, Hapoalim, and Discount) generally have chairpersons/CEOs of the Professional Bankers type. This is due to the fact that the banking regulators wield less influence vis-à-vis a bank with no controlling core because the various shareholders hold the power to select the bank's chairperson and CEO.

[12] In 2002, after failed efforts to sell the state's controlling stake in Bank Leumi, the MoF established a committee to examine the possibility of privatizing the bank through the stock market, see: Marani [79] In September 2004, based on the committee's recommendations, the Banking (Licensing) Law (Amendment No. 13), 5764-2004, and the Banking Ordinances were amended, allowing a bank in Israel to operate not only as a bank with a controlling core, but also as a bank with dispersed control and without controlling shareholders.

(In)Formal Measures of the Banking Regulators to Control the Banks Through Managerial RS Types

This section lays out my claim that since the beginning of the 1980s, the professional profiles of the chairpersons/CEOs have been affected mostly by the banking regulators' intensive control over the banks' managerial RS types through both *formal* and *informal* measures. I describe these measures as two main tools: corporate governance and ownership structure.

Corporate governance

This part addresses the *formal* mechanisms for appointing a chairperson and CEO according to the bank's ownership structure (Table 2 below summarizes the mechanisms). As noted, Israel's nationalized banks were held through a state-owned corporation, M.I. Holdings. The *Knesset* (the Israeli parliament) enacted a statute to establish an independent public committee for nominating bank directors (the Public Committee) headed by a retired Supreme Court justice, who would presumably be insulated from any political pressure. Nonetheless, several interviewees contended that the entire Public Committee process is political. The *formal* mechanism has served the MoF and the BoI, enabling them to *informally* influence the appointment of bank chairpersons, The ministry and central bank have played a significant role in promoting candidates of the Bureaucratic (1) RS type in the Public Committee, with the aim of appointing chairpersons who would serve the state's interests and prioritize bank stability in light of the "share manipulation affair". One of the interviewees adduced the following example. In 1994, the finance minister at the time, Avraham Shochat, used his dominant position to promote Eitan Raff as a candidate to chairperson Bank Leumi. Raff had served as accountant general in the MoF from 1979 to 1983, and he was indeed appointed as Leumi's chairperson.

The banks, like all Israeli public companies, are subject to the Companies Law (1999).[13] Additionally, the BSD has a variety of *formal* powers to ensure the banks' compliance with its instructions regarding the appointment of chairpersons and CEOs. In September 1985, following the bank shares affair, the BSD published the *Proper Conduct of Banking Business*

[13] Sections 59 and 119.

– *Directive No. 301 - Board of Directors*,[14] which for the first time separated the role of the board of directors from the role of management.[85] The directive includes instructions regarding the functions and authority of the board of directors of banking corporations. For instance, section 28(d) of chapter 4 states that the owner of a controlling interest in a banking corporation or the owner's relatives are banned from chairing the board of directors. According to section 12, the board of directors is responsible for the appointment and dismissal of the CEO. Furthermore, chapter 9 asserts the authority of the board to report to the BSD.

Section 11(a) of the Banking Ordinance (1941) stipulates the "fit and proper" criteria as a tool for ensuring the quality of corporate governance.[15] The appointment/extension of appointment of a considerable portion of a bank's senior management, including the CEO and chairperson, is subject to the BSD's approval in accordance with its authority under the ordinance. The BSD's requirements set a strict threshold for expectations in terms of the qualifications and integrity of the candidates for those positions. In keeping with this section, a person cannot serve as an office holder in a banking corporation, unless the BSD is notified at least 60 days in advance. If a banking corporation's preliminary examination indicates that a candidate does not meeting the BSD's threshold and would not be approved, no request is submitted at all. Bank supervisors can block the appointment of bank officers and directors who fail to meet the "fit and proper" standards or demand their termination for that reason. According to section 11(c), in the case of banks *with* a controlling interest, the controlling shareholders are primarily responsible for appointing directors. As elaborated later in this section, the BoI has pushed to sell the controlling shares in the banks to private entities that are most likely to appoint chairpersons and CEOs who the central bank's approach.

However, the appointment of directors in banks *with no* controlling interest is pursuant to section 11(e) of the Banking Ordinance and section 36(a) of the Banking (Licensing) Law (1981). The governor of the BoI must appoint a Committee for the Appointment of Directors at banks with no controlling core. The committee's task is to nominate candidates for directorship at the shareholders' meeting. Candidates may also be proposed by shareholders who hold over 2.5% of the bank's share capital, and who comply with certain conditions

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[14] For the directive, see:
https://www.boi.org.il/en/BankingSupervision/SupervisorsDirectives/ProperConductOfBankingBusinessRegulations/301_et.pdf (accessed 26 July 2020).
[15] For the ordinance, see:
https://www.boi.org.il/en/BankingSupervision/BankingLegislation/Bank%20of%20Israel%20%20Bank%20Legislation%20and%20Notices/103.pdf (accessed 26 July 2020).

determined in the instructions.[86] Under this mechanism, the BSD's ability to influence the profiles of the directors, the chairperson, and the CEO has decreased, because the main influence on the identity of those senior managers is vested in the bank's various shareholders. The following example illustrates this thesis. At the end of 2018, during the campaign for a directorship in Discount Bank, the BoI's Committee for Appointment of Directors tried to impose its own candidate, Yoram Ariav, to serve as bank chairperson. However, Ariav, a former MoF director-general, did not pass the first hurdle: He was not elected as a director at the bank's shareholders meeting, leaving only internal candidates from the board of directors.[87] The decision by the bank's shareholders, especially by foreign institutional investors, was viewed as an act of defiance against the BoI's committee and a refusal to accept its will.[88] Eventually, Shaul Kobrinsky, who had been serving as a director in the bank since 2014, and fit the Professional Banker mold, was appointed.

In the case of banks *with no* controlling interest, where shareholdings are dispersed, the *agent problem* emerges between shareholders as a class and the management of the bank. Despite the shareholders' formal governance rights, it may be impossible or very difficult to mobilize for collective action and exercise effective control over the bank's management. In consequence, management may give priority to the interests of the managers themselves.[89] Under these conditions, it is essential for the shareholders to exert as much influence as they can on the selection of directors in order to limit the power of management over the board and to maximize corporate profits and shareholder returns.[90]

Insert Table 2 about here

To conclude, although the banking regulators have several *formal* measures to influence the selection of senior managers (an authority that derives from corporate governance standards), they have generally chosen to exert influence through the appointment mechanism of directors. As I have shown, this mechanism has given the regulators *informal* influence for introducing a senior management cadre of the Bureaucratic (1) RS type into the banks. This influence has decreased in the case of banks *with no* controlling interest.

Ownership structure

In the 1990s, the State of Israel began a process of privatizing state-owned banks; it was intent on selling its controlling shares in the banks to private entities.[74] The transfer of control into private hands created the hope that the controlling shareholders, motivated to make attractive returns on their capital, would improve the low operating efficiency of banks. Another expectation was that the controlling owners would inject private equity into the bank in order to strengthen its capital base and contribute to its financial strength.[19] [16] Furthermore, banking is an example of an industry in which the state has a strong interest in retaining influence, even after privatization. As Hamdani and Kamar (2012) argue, such concentrated ownership provides banking regulators with a platform for exerting *informal* influence over corporate decision-making. This platform serves the regulators as a safety valve when all else fails, especially when they would like banks to terminate senior executives or board members.[17] Communication with controlling shareholders increases the likelihood that both the regulatory intervention and the reasons underlying it will remain confidential, thus maintaining the stability of banks.[81]

The following two events illustrate this argument. The first is colloquially known as the "Dankner Affair" of 2009, which occurred when the BoI detected irregularities in the activities of the chairperson of Bank Hapoalim, Dan Dankner. Taking into consideration that the bank was the largest bank in Israel and that the problem occurred during the global financial crisis, the governor preferred to reach a discreet arrangement with the bank's controlling shareholder, Shari Arison, concerning the dismissal of the chair. In return, the BSD refrained from enforcing measures against the bank. The governor did not disclose details to the public because he was concerned that this information might undermine the bank's stability.[19] It is noteworthy that the BSD's perception of Bank Hapoalim's board as weak was the impetus for intervention. However, the decision to talk solely with the controlling shareholder only further weakened the board.[81] After all, under Israel's Companies Law,[18] the board – and not the controlling

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[16] The private owners failed to fulfill these expectations.
[17] The controlling shareholders can make swift decisions and replace directors and executives with no need for formal group deliberations. Examples of public conflicts between controlling shareholders and the chairperson/CEO that led to the dismissal of the latter include: In April 2003, Bank Hapoalim CEO Eli Yones was forced to resign after one year by the Arison family, who controlled the bank.[91] In March 2007, Shlomo Nehama, the chair of Bank Hapoalim, was similarly forced to resign.[92] In November 2009, the chairman of Israel Discount Bank, Shlomo Zohar, was ousted due to his irreconcilable differences with the Bronfman-Schron families, the bank's controlling shareholders.[93]
[18] Section 92.

shareholder – is the body authorized to manage the company. The second event occurred when Dankner was replaced by Yair Seroussi, who had previously served in several positions at the MoF. Seroussi was not Arison's first choice; rather, his appointment was urged by the BoI Governor Fischer in order to strengthen trust in the bank after the "Dankner affair". [94]

To conclude, the respective ownership structure of the banks has affected the RS types of their chairpersons/CEOs. When the BoI insisted that the banks be sold to private entities, it *formally* contributed to the preponderance of chairpersons/CEOs from the Loyalists RS type because the controlling shareholders were most likely to appoint senior managers who were their affiliates and loyal to them. In owner-controlled firms, managers have less discretion and more interaction with equity owners, who should align their interests with those of the owners. Furthermore, concentrated ownership provides banking regulators with a platform for exerting *informal* influence over problematic senior managers, while promoting those candidates who appeal to them and meet their own standards and interests. In summary, although banking regulators have a variety of *formal* powers at their disposal to maintain the stability of banks, they also employ measures to affect the RS types of the banks' chairpersons/CEOs.

Conclusion

This paper has drawn from the experience in the Israeli banking sector to argue that key banking regulators affect the RS types of the banks' chairpersons/CEOs through both *formal* and *informal* measures to maintain the banks' long-term financial stability. Since the early 1980s, the regulators have played an active role in facilitating the selection of senior managers from the Bureaucratic (1) RS type (referred to in the literature as "revolvers"), who promote the state's interests and prioritize banks' stability. This aspect can only be accounted for by a broader approach to revolving doors. Since the mid-1990s, despite the shift from an interventionalist to a neoliberal state, the banking regulators have continued to play a decisive role in affecting the managerial RS types of the banks through the concentrated ownership structure – controlling shareholders – that provides them a platform for intervention.

Israel's major banks have also been operating *with no* controlling shareholders since 2012, transitioning from *owner-control banks* to *management-control banks*. The banking regulators' ability to influence the profile of the directors, the chairperson and CEO has diminished because the banks' dispersed ownership controls the selection of senior bank managers. In banks *with no* controlling shareholders, both the chairperson and the CEO lead the bank and are held accountable to the bank's various shareholders. As a result, CEOs have mostly fallen into the Professional Bankers RS category, and the chairperson follows this same trajectory. Time will tell if this course of events will lead to a process of professionalization of these senior managers. Finally, we have seen that the RS of the chairpersons and CEOs are inseparable because the two roles complement one another not only in their function, but in their RS types as well. The CEO is dependent on the backing of the board of directors and its chairperson. Thus, a chairperson of the Bureaucratic or Loyalists RS type usually serves alongside a CEO of the Professional Banker type. When regulators directly affect a chairperson's RS, they also indirectly affect the CEO's RS due to the complementarity of the two roles. Indeed, the chairperson's RS dictates, to some extent, the RS of the CEO.

The banking regulators have formidable autonomous and bureaucratic capacities to maintain banks' financial stability, and this includes influencing the RS types of bank chairpersons and CEOs. In my view, such influence on corporate decision-making should be exercised only under extreme conditions, when all else fails, because it entails far more disadvantages than advantages. In the "Dankner affair", for example, it was easier for the BoI to informally influence controlling shareholders than to informally influence the board. However, the decision to act vis-à-vis the shareholders weakened the board. Moreover, this informal influence raised public criticism regarding the legitimacy and normativity of this intervention and the lack of transparency.[95] The BoI's governor rejected accusations of paternalism and justified the intervention, asserting that "taking steps to protect the bank's stability enhances the public's faith in the bank".[96] Is that so? If such intervention by the BoI becomes common practice, it may undermine the public's faith in the banks. Additionally, the commitment of the chairpersons' and CEOs is critical in allocating resources for the banks' non-market and market strategies.[97] By influencing the selection of these managers, the banking regulators also indirectly influence the banks' strategy.

The Israeli banking system is considered very stable thanks to its conservative banking model, which emphasizes stability.[98] Thus, it is hard to assess whether the regulators' intervention in promoting particular RS types also helped maintain the banks' stability. This paper contributes to the discussion on intervention by state actors in the neoliberal era. In the Israeli context, the powerful BoI enjoys a very wide range of discretion, with no oversight and control to balance its power. Although the banking regulators' ability to influence the profile of directors is diminished when there is no controlling shareholder, they can still amend the regulations governing these banks in order to strengthen their ability to supervise. Therefore, we should bear in mind that it is imperative to exercise such power with due care; otherwise, it may harm the financial governance of the banks.

The insights this study offers are drawn primarily from the experience in Israel, and they may not necessarily explain the factors that affect the RS types of chairpersons and CEOs elsewhere. Differences in culture, regulatory environment, or legal landscape can clearly matter. Nevertheless, some of the core ideas broached in this paper have broader applicability and may offer new avenues for research because this analysis is consistent with the fact that many banks around the world have controlling shareholders.[99] Even so, further research is needed to confirm the ideas and distill what was claimed in this study. Such research might inquire, for example, what other measures banking regulators use for similar purposes, or how the conclusions presented in this study may apply differently in the dichotomous models of Anglo-American and Continental European corporate governance.

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Supplementary Appendix

Appendix A: Bank Chairpersons/CEOs and RS Types by Bank

	CEO			Chairperson		
Bank	**Period**	**Name**	**RS**	**Period**	**Name**	**RS**
Hapoalim	1929-1949	I. Barely	1	1950-1957	I. Barely	1
	1950-1968	A. Zabersky	1	1958-1968	A. Zabersky	1
	1969-1972	E. Avnion	1	1969-1980	J. Levinson	1
	1973-1979	E. Rainer	1	1981-1984	E. Rainer	1
	1980-1985	G. Gazit	2	1985-1991	E. Berglas	2
	1986-2001	A. Sivan	2	1992-1997	E. Sharon	2
	2002	E. Younes	2	1998-2006	S. Nehama	5
	2003-2008	Z. Ziv	4	2007-2008	D. Dankner	5
	2009-2015	Z. Kenan	4	2009-2016	Y. Seroussi	4
	2016-2018	E. Pinto	4	2017-	O. Eran	4
	2019-	D. Kotler	4			
Leumi	1948-1956	A. Barth	1	1948-1956	E. Z Hoofein	1
	1957-1969	E. Lehman	1	1957-1969	Y. Forder	1
	1970-1985	E. I. Yefet	4	1970-1976	E. Lehmann	1
	1986	M. Einhorn	4	1977-1985	E. I. Yefet	4
	1987-1988	T. Bino	4	1986	E. Horvitz	1
	1989-1994	D. Friedman	4	1987-1988	M. Het	3
	1995-2011	G. Maor	3	1989-1993	M. Sanbar	3
	2012-2018	R. Russak-Aminoach	4	1994-2009	E. Raff	2
	2019-	H. Friedman	4	2010-2018	D. Brodet	2
				2019-	S. Haj Yehia	4
Mizrahi	1948-1967	N. Feingold	1	1948-1952	D. Z. Pinkas	1
	1968-1970	Y. Nitzan	1	1953-1969	H. M. Shapira	1
	1971-1985	A. Meir	1	1970	N. Feingold	1
	1986	M. Man	4	1971-1987	I. Jaeger	1
	1987	M. Zvinari	1	1988-1994	H. Kovarsky	1
	1988-1992	I. Jaeger	1	1995	V. Medina	2
	1993-1994	D. Bloomberg	4	1996	M. Wertheim	5
	1995-2003	V. Medina	2	1997	D. Brodet	2
	2004-2012	E. Younes	2	1998-2001	A. Wertheim	5
	2013-	E. Fresher	2	2002	I. Ofer	5
				2003-2011	J. Perry	5
				2012-	M. Vidman	5
Discount	1948-1953	L. Recanati	5	1948-1953	L. Recanati	5
	1954-1980	D. Recanati	5	1954-1980	D. Recanati	5
	1981-1985	R. Recanati	5	1981-1985	R. Recanati	5
	1986-1990	G. Lahav	4	1986-1990	Y. Ciechanover	1
	1991-1997	A. Asheri	1	1991-1995	G. Lahav	4
	1998-1999	D. Granot	4	1996-2005	M. Mintkiewicz	2
	2000	A. Goldschmidt and I. Segev	4	2006-2009	S. Zohar	5
	2001-2010	G. Ofer	4	2010-2018	Y. Bachar	2
	2011-2013	R. Speigel	4	2019-	S. Kobrinsky	4
	2014-2018	L. Asher Topilsky	4			
	2019-	U. Levin	4			
FIBI	1972-1978	D. Golan	1	1972-1978	M. Moshevitz	1
	1979-1985	T. Bino	4	1979	D. Golan	1
	1986-1989	S. Zinger	4	1980	A. Manor	5
	1990-2000	S. Piotrkowsky	5	1981-1984	M. Moshevitz	1
	2001-2006	D. Granot	4	1985	B. Nahir	5
	2007-	S. Baber-Tsadik	5	1986	Z. Bino	4
				1987-2000	Y. Arnon	5
				2001-2005	J. Rosenzweig	5
				2006-2011	J. Elad	5
				2012-2016	R. Hizkiaho	3
				2017-	I. Izakson	4

Recruitment Sources (RS) – Institutional (1), Bureaucratic1 (2), Bureaucratic2 (3), Professional Bankers (4), Loyalists of the Controlling Shareholders (5)

Appendix B: Recruitment Sources of Bank Chairpersons and CEOs, by Time Period

	% of all bank CEOs from Institutional source	% of all bank CEOs from Bureaucratic (1) source	% of all bank CEOs from Bureaucratic (2) source	% of all bank CEOs from Professional Bankers source	% of all bank CEOs from Loyalists source
1950-1979	69%	0%	0%	9%	23%
1980-1994	21%	20%	0%	44%	15%
1995-2009	4%	31%	20%	33%	12%
2010-2019	0%	20%	4%	56%	20%

	% of all bank Chairs from Institutional source	% of all bank Chairs from Bureaucratic (1) source	% of all bank Chairs from Bureaucratic (2) source	% of all bank Chairs from Professional Bankers source	% of all bank Chairs from Loyalists source
1950-1979	74%	0%	0%	2%	23%
1980-1994	40%	13%	9%	15%	21%
1995-2009	0%	41%	0%	1%	57%
2010-2019	0%	50%	10%	16%	24%

Appendix C: Grouping the Data into Three Categories of RS

Years	CEOs for these years	Chairs for these years	CEOs from other sources	Chairs from other sources	% of all CEOs from other sources	% of all Chairs from other sources	CEOs from Bureaucratic source	Chairs from Bureaucratic source	% of all CEOs from Bureaucratic source	% of all Chairs from Bureaucratic source	CEOs from Professional Bankers source	Chairs from Professional Bankers source	% of all CEOs from Professional Bankers source	% of all Chairs from Professional Bankers source
1950-1954	4	4	4	4	100%	100%	0	0	0%	0%	0	0	0%	0%
1955-1959	4	4	4	4	100%	100%	0	0	0%	0%	0	0	0%	0%
1960-1964	4	4	4	4	100%	100%	0	0	0%	0%	0	0	0%	0%
1965-1969	4	4	4	4	100%	100%	0	0	0%	0%	0	0	0%	0%
1970-1974	5	5	4	5	80%	100%	0	0	0%	0%	1	0	20%	0%
1975-1979	5	5	4	4	80%	80%	0	0	0%	0%	1	1	20%	20%
1980-1984	5	5	2	4	40%	80%	1	0	20%	0%	2	1	40%	20%
1985-1989	5	5	1	3	20%	60%	1	2	20%	40%	3	0	60%	0%
1990-1994	5	5	2	2	40%	40%	1	2	20%	40%	2	1	40%	20%
1995-1999	5	5	2	2	40%	40%	3	3	60%	60%	0	0	0%	0%
2000-2004	5	5	0	3	0%	60%	3	2	60%	40%	2	0	40%	0%
2005-2009	5	5	1	4	20%	80%	2	1	40%	20%	2	0	40%	0%
2010-2014	5	5	1	1	20%	20%	1	4	20%	80%	3	0	60%	0%
2015-2019	5	5	1	1	20%	20%	1	2	20%	40%	3	2	60%	40%

Appendix D: Methodological Note

Bureaucratic (1) Recruitment Source: For those managers with complex careers, the positions that were considered were the most prominent positions during those *revolvers*' careers. In my account, I considered someone as holding a prominent position if the person in question was a former senior executive in the MoF within 15 years from the time he had been appointed to Chairperson/CEO in the bank. I set this time period based on the way these managers were presented in the bank's statement and in the economic press when they were appointed.

Tables and Figures

Table 1. Typology of Recruitment Sources Types

RS Types	Description
Institutional	Individuals affiliated with the political parties that were related to some of the banks and/or had direct ties to the state institutions in its inception years. In addition, former senior executives from the state's industrial institutions.
Bureaucratic (1)	Former senior executives who had completed their bureaucratic terms in the Ministry of Finance (MoF) and moved to work in a firm they had priorly regulated. They have accumulated specific bureaucratic knowledge related to relationships and networks within public agencies as well as knowledge of the ins-and-outs of the system, including any loopholes that might exist.
Bureaucratic (2)	Former senior executives who had completed their bureaucratic terms in the main regulatory authorities and then joined the very sector they used to regulate. They have accumulated specific bureaucratic knowledge related to regulations and relationships as well as insider knowledge of the system, including any loopholes that might exist.
Professional Bankers	Senior executives who have knowledge and experience in the banking or the finance industry, either as directors of companies, as senior executives at the bank or at accountancy firms.
Loyalists of the Controlling shareholders	Senior executives affiliated with the Family-Owned Bank (FOB) or the controlling shareholders, either as a family member, as former senior executives at the owner's business, or by virtue of an acquaintance with the controlling shareholder.

Table 2. Appointment Mechanisms of Chairpersons/CEOs in the Israeli Banks

	Nationalized Banks (in the past)	**Banks with Controlling Shareholders**	**Banks with no Controlling Shareholders**
Director & **Chairperson**	The Public Committee, headed by a retired judge, nominates candidates to be directors The Shareholders Meeting in each bank appoints the directors at the General Meeting The Board of Directors appoints the chairperson	The Shareholders Meeting appoints the directors at the General Meeting The Board of Directors appoints the chairperson	The Committee on the Appointment of Directors, headed by a retired Supreme Court Justice, nominates candidates to be appointed as directors Shareholders who hold over 2.5%, may nominate candidates as well The Shareholders Meeting appoints the directors at the General Meeting The Board of Directors appoints the chairperson
CEO	The Board of Directors appoints the General Manager	The Board of Directors appoints the General Manager	The Board of Directors appoints the General Manager

Source: Author's design

Figure 1. Recruitment Sources of CEOs, by Time Period

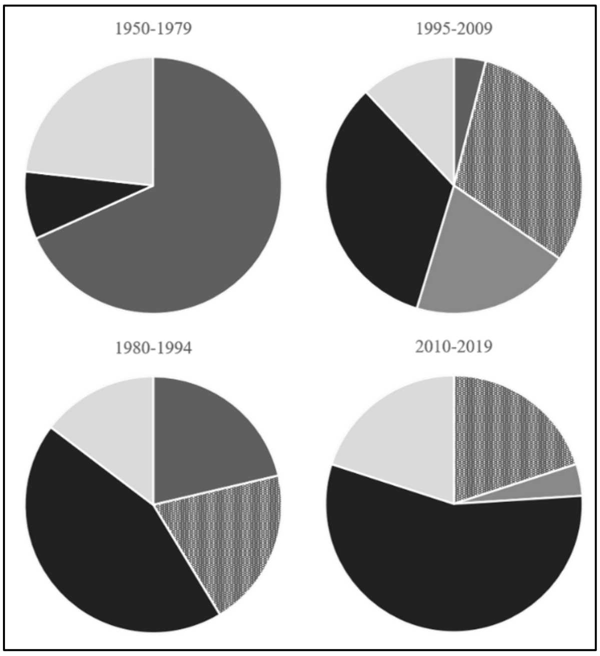
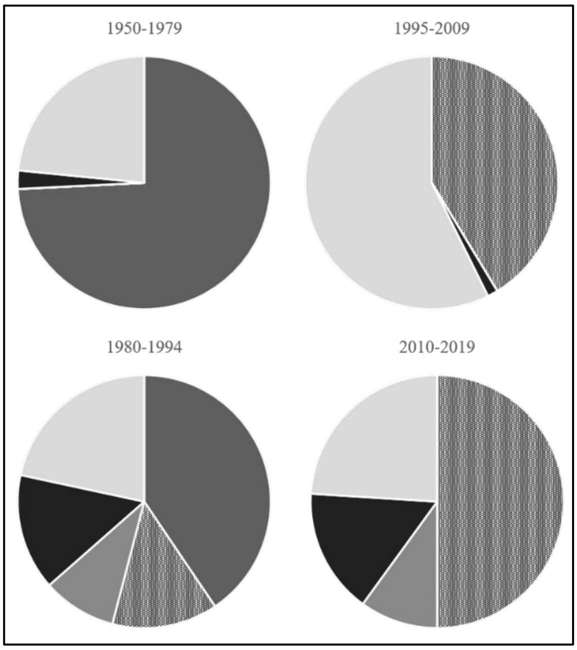


Figure 2. Recruitment Sources of Chairpersons, by Time Period



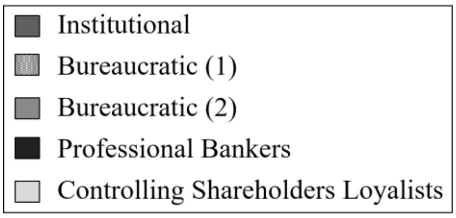
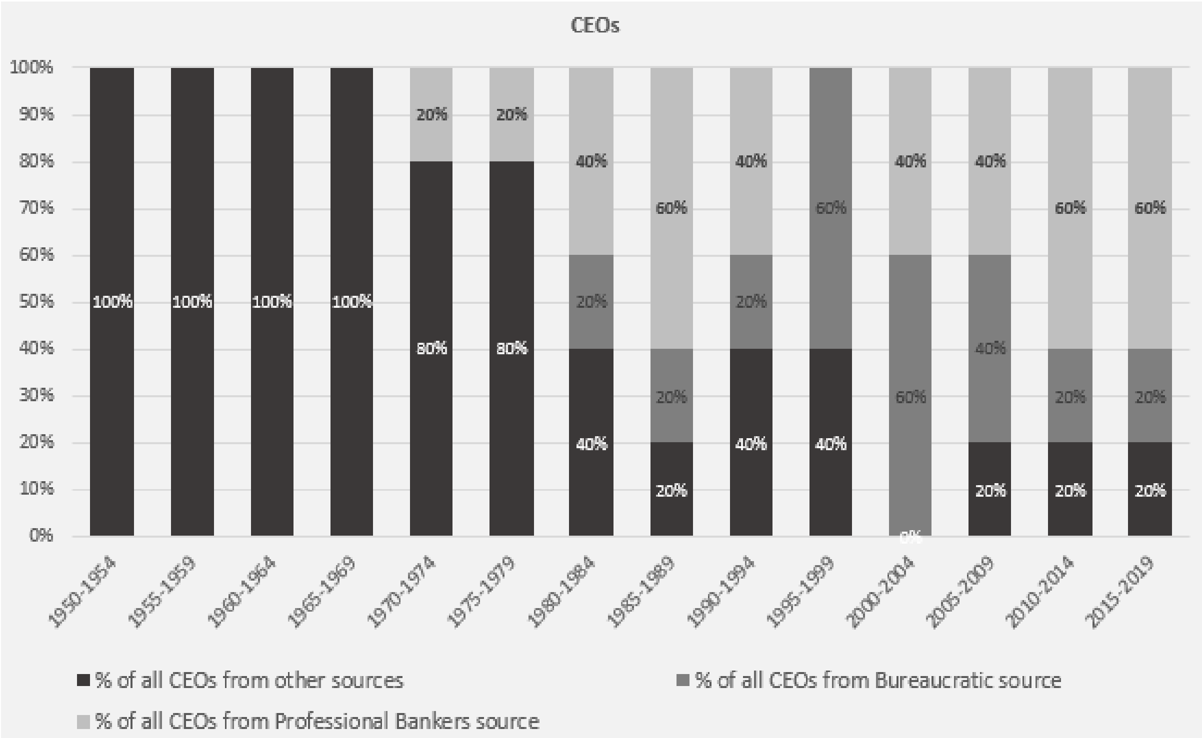
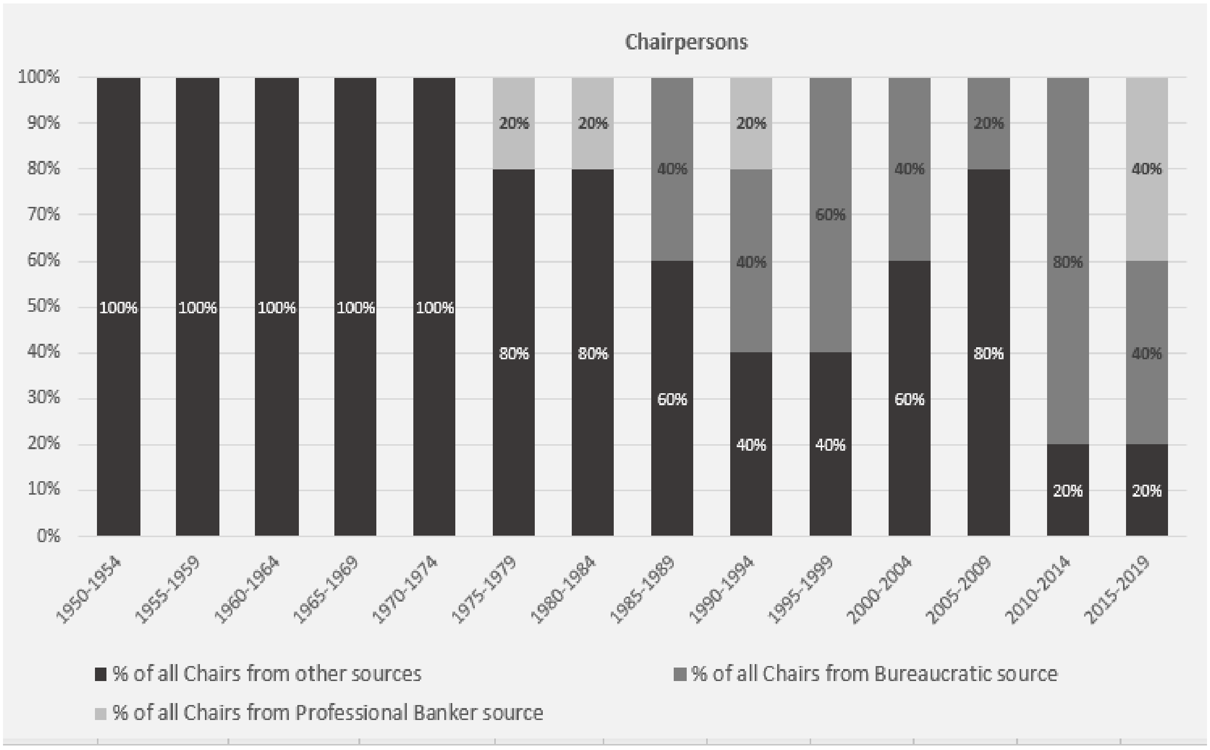


Figure 3. CEOs - Distinction between Bureaucratic and Professional Banker Sources



Source: author's calculation from an original dataset

Figure 4. Chairpersons – Distinction between Bureaucratic and Professional Banker Sources



Source: author's calculation from an original dataset

CONCLUSION

Over the past thirty years, the increasing complexity and volatility in the competitive environment have made it challenging for big firms to exclusively rely on market-oriented strategies. As a result, they have developed and sharpened their nonmarket activities, attempted to slow down the pace of new government regulation, and started to acknowledge the benefits of becoming *political actors*. Thus, in the modern world economy, the competitive advantage of a firm is determined as much by its nonmarket activities as by its market activities. This has contributed to the development of the CPA approach. Yet, this broad body of knowledge, including studies that have focused on the financial sectors, does not refer to the political behavior of firms that enjoy a privileged position. The global financial crisis of 2008 showed how significantly the economic activities of states can be affected by disorders that originate in the banking industry (Dewatripont, Rochet, & Tirole, 2010). It sharpened our understanding that the banking and other financial sectors are different and unique. Despite this, the CPA literature has not been updated and has not conducted an academic dialogue with the business power literature that focuses on the structural position of business.

Likewise, even though the business power literature has enjoyed a renaissance in the aftermath of the 2008 crisis, this body of knowledge has not yet addressed the influence of the privileged position of businesses on their evolution as political actors. There has been no longitudinal research on this issue, including in a recent study that suggests that the two forms of business' power (*structural* versus *instrumental*) often work together and can even be mutually reinforcing.

Furthermore, previous research employing the state capacity approach devoted efforts to studying the capacity of state actors to implement their policy agendas, underscoring bureaucratic expertise and state authority. However, this approach has not yet addressed how the autonomous and bureaucratic capacities of state actors may affect the evolution of businesses as political actors, not even in the resent theoretical debates that tie between the state capacity perspective and the business power literature. This research underscores our understanding that we cannot explore the Israeli banks' political activities without recognizing the effect of their privileged position and the significant role the banking regulators play in their evolution as political actors through the protection of their financial stability.

In this dissertation, I attempt to bridge the gap in the literature through a novel linkage between extensive bodies of knowledge, drawing on arguments from the business power literature and incorporating them into the CPA literature with respect to the state capacity approach.

Summary of the Research Project and the Work Process

When I began my work on this research project I underestimated the focal role of the banking regulators – the Bank of Israel (BoI) and the Banking Supervision Department (BSD) – in the evolution of the Israeli banks as political actors, and had relatively little understanding of how the structural element – maintaining the financial stability of the banking system – has affected the evolution of the banks as political actors in both the regulatory and parliamentary arenas. In a similar vein, the business power literature revolves, *inter alia*, around the question of how structurally powerful business organizations manage to lose many political battles (e.g. Bell, 2012; Bell & Hindmoor, 2017; Culpepper, 2011, 2015; Culpepper & Reinke, 2014; D. Vogel, 1987). Indeed, over the last decades some steps have been taken by state agencies, especially the Ministry of Finance and the Knesset, to limit the banks' power in financial markets and to increase competition (Maman, 2017; Maman & Rosenhek, 2017). On the one hand, despite the banks' losses in most of their political battles, in 2019 the Israeli banking sector is still very centralized, and the banks continue to increase their profits every year. On the other hand, over the last decade, and especially since the 2011 Social Protest, the legitimacy of the BSD and the banks has been weakened by the public, media and political debates over their role and value (Magen & Shimoni, 2012; Rolnik, 2017).

During the work process I realized there is a "magic circle," which is an important to understanding the evolution of the Israeli banks as political actors: as long as the banking regulators maintain the financial stability of the banking system by blocking *regulation for competition* in the banking sector, the Members of the Knesset (MKs) in the parliamentary arena remain highly motivated to restrain the power of the banks and please their voters, and then the BSD reacts to maintain the stability of the banks against these attempts by the MKs. As a result, in the parliamentary arena the banks have been unable over the last decade to block or change reforms altogether without the protection of the banking regulators. This, in turn, has led them to avoid the parliamentary arena, thereby affecting their evolution as political actors.

This dynamic further motivated me to explore the evolution of the banks as political actors, yet I realized there were no existing works that I could rely on. In order to fully comprehend the evolution of the Israeli banks as political actors, I had to broaden the boundaries of existing studies by combining their ideas and perceptions. This yielded a novel linkage between extensive bodies of knowledge, drawing on arguments from the business power literature and incorporating them into the CPA literature with respect to the state capacity approach.

The dissertation's first paper, entitled ***Structural Power, State Capacity and Social Protest: The Case of Israeli Banking Fees***, focuses on the limits of the traditional theories of structural power under highly politicized conditions. Scholars suggest that business power declines substantially in highly politicized contexts where government leaders often face strong electoral pressures. However, using the case of the banking fees reforms in Israel (1990-2018), and studying the influence of the "noisy" politicization of the 2011 Socioeconomic Protest, I show that under such conditions, state actors can still protect the privileged position of business using their bureaucratic capacities. This explanation develops the state capacity approach by emphasizing the role played by institutionalized prioritization of goals in enhancing state capacity, including bureaucratic capacity. This offers a fresh analysis that draws upon the theoretical debates that tie between the state capacity perspective and the business power literature.

I found that although the banking fees have been under attack since the early 1990s, only after the "noisy" politicization of the 2011 Socioeconomic Protest did the banks' relative income from fees start to shrink. In the pre-Protest era, the banks were able to maintain their income from fees by means of the protection they received from the banking regulators, which mediated the idea of "banks' financial stability" mainly to the parliamentary arena. However, the Socioeconomic Protest of 2011 posed a threat to the BSD's ordering of goals, challenging that idea due to consumers' hostility towards the banks. The BSD was forced to intervene in the fees while ensuring the stability of the banking system in diverse ways.

However, in the parliamentary arena, where the consumers' interest was awarded priority in the first place, the Protest did not cause any ideational change among the politicians. One might expect the banks to develop into sophisticated political actors and play a prominent role in the policy process. Nonetheless, the banks were unable to block altogether or change the fee reforms in the parliamentary arena by their nonmarket strategy. This has prompted them to avoid the parliamentary arena and rely on the protection they receive in the regulatory arena. I realized that the structural power of the banks is expressed in practice by the state bodies that protect capitalists' interests. The main banking regulators play a critical role in the behavior of the Israeli banks as political actors in both arenas. These insights directly contribute to the CPA literature by demonstrating the important nexus between the privileged position of the Israeli banks and their nonmarket strategy.

These insights further motivated me to dive into this nexus and examine it from a different angle of banks' political activity. To the best of my knowledge, the dissertation's second paper, entitled ***The (Dis)advantages of a Privileged Position: The Case of Banks' Government Affairs Departments***, is the first attempt to empirically explore the embeddedness of government affairs departments (GADs) in the corporate structure of firms that enjoy a privileged structural position. GADs stand at the center of the CPA literature. However, we know little about how macro-sectoral characterization, such as the privileged position of business, might influence their embeddedness in firms' corporate structure.

I conducted a preliminary study to observe whether the Israeli banks had embedded the GADs in their corporate structure, using an original analytical framework to measure the embeddedness of GADs in the corporate structure. According to previous CPA studies, firms embed their GADs in their corporate structure due to their need to establish a regulatory consistency mechanism, which constitutes the basis for timely information gathering, and long-term relationships, specifically with the political and regulatory publics. I was therefore surprised to find that the empirical evidence suggests that their corporate government affairs infrastructure is unstable. I addressed these findings by testing possible research hypotheses and applying a cross-sectoral comparative analysis. The findings underscored the nexus between the privileged position of the banks and their political activity. I found that the Israeli banks have not embedded their GADs, as compared to the non-banking sectors; given the banks' privileged position in the regulatory arena, it was unnecessary for them to embed a consistent mechanism of interaction with their regulators in the corporate structure.

In this paper I provide a novel linkage between two bodies of knowledge, drawing on arguments from the business power literature and incorporating them into the CPA literature. That is, we cannot understand the way banks embed the GADs in their corporate structure without addressing their privileged position in the economy.

The third paper continues along this line, focusing on the influence of the banking regulators on the professional profile of the banks' chairpersons and CEOs, that their commitment is critical to the allocation of resources for the banks' nonmarket and market strategies (See: Bruce & Johnson, 2019; Hadani, 2012; Hadani, Nicolas, & Jonathan, 2015; Ozer, 2010). By influencing the selection of these managers, the banking regulators also indirectly influence the banks' political strategy. The third paper, entitled ***Financial Governance in a Neoliberal Era: Controlling the Banks by Controlling their Managerial Recruitment Sources***, employs an original dataset of the professional profile of all 87 former and incumbent Israeli banks' chairpersons/CEOs from the inception of the State of Israel in 1948 to 2019, drawing on a novel typology I put forth for classifying their recruitment sources (RS). I found that the main banking regulators affect the RS types of the banks' chairpersons/CEOs through both *formal* and *informal* measures to ensure the banks' financial stability in the long run, even after the shift from an interventionist to a neoliberal state.

Previous research has not fully accounted for the ability of the banking regulators to affect the RS of these managers. This paper therefore offers a fresh analysis that sheds light on how the banking regulators even in the neoliberal era wield control over the banks in diverse and creative ways. Furthermore, in this paper I point out on an important issue, namely that the powerful BoI enjoys a very wide range of discretion, with no oversight and control to balance its power. Therefore, we should bear in mind that it is imperative to exercise such power with due care; otherwise, it may harm the financial governance of the banks.

Going Back to the Dissertation's Objectives

Overall, the aims of this dissertation have been fulfilled. The *first* was to capture the dependent variable, "evolution of the banks as political actors". In the first and second papers I captured it through different lenses of the CPA literature. In the *first paper* I focus on the banks' political strategy and on their interactions with the main nonmarket stakeholders in the case of banking fees reforms; in the *second paper*, I focus on the embeddedness of government affairs departments in the banks' corporate structure. Additionally, to fully comprehend the variable, in both papers I not only conduct an in-depth inductive process-tracing spanning three decades but use both primary and secondary data and conduct semi-structured interviews as well. All the above has allowed me to recognize the difficulty of the Israeli banks to evolve as political actors according to the definition I present in the subsection entitled "The firm as a political actor" in this dissertation.

Second, the three case studies I chose to explore allowed me to better understand the nexus between the privileged position of the banks in the economy and their evolution as political actors. In the case of the banking fees, the empirical findings underscore their privileged position, with the banking regulators ensuring the stability of the banking system in diverse ways, despite the ongoing decline in the ratio of fees income to total income. In keeping with the definition of the "evolution as political actors" variable mentioned above, one might expect the banks to have played a prominent role during the struggles over the banking fees and developed into sophisticated political actors. However, the banks were unable to block altogether or change the reforms in the parliamentary arena through their nonmarket strategy. This has prompted them to avoid the parliamentary arena and rely on the protection they receive in the regulatory arena, thereby influencing them as political actors.

Furthermore, the case of the embeddedness of government affairs departments in the banks' corporate structure also underscores the nexus between the privileged position of the banks and their evolution as political actors. The findings demonstrate that the banks have not embedded their GADs, as compared to the non-banking sectors; given the banks' privileged position in the regulatory arena, it was unnecessary for them to embed a consistent mechanism of interaction with their regulators. The third case study continues along this line, focusing on the influence of the banking regulators on the professional profile of the banks' chairpersons and CEOs. This has enabled the banking regulators to wield influence over the banks and maintain their financial stability in the long run. By influencing the selection of these managers, the banking regulators also indirectly influence the banks' political strategy.

The *third* aim was to identify the ways in which the key banking regulators, protect the banks' privileged position. In this regard, (1) the main mandate of the BSD concerns regulation of the banks' financial stability; this lies at the root of its organizational identity. (2) The BSD ensures the stability of the banking system in diverse ways, despite the ongoing decline in the ratio of fees income to total income. (3) The banking regulators mediate the idea of "the banks' financial stability" mainly to the parliamentary arena, which traditionally has prioritized the consumers' interests. And (4) the main banking regulators affect the RS types of the banks' chairpersons/CEOs through both formal and informal measures to maintain their long-term financial stability. All the above illustrates that the reciprocal dependency between the banking regulators and the banks around the issue of maintaining the banking system's financial stability influences the evolution of the banks as political actors.

The Contribution of the Dissertation to the Existing Research of CPA, Business Power and State Capacity

To the best of my knowledge, this dissertation represents the first attempt, to examine the evolution of the banks as political actors, through a longitudinal study spanning three decades. It shows that we cannot understand the Israeli banks' political activities without recognizing the effect of their privileged position and the significant role that state actors play in protecting their financial stability. It highlights the significance of the reciprocal dependency in capitalist economies between the state and the banks around the issue of maintaining the banking system's financial stability. After all, in no other sector are the reciprocal dependence and the potential consequences of an individual firm's collapse as far-reaching and unforeseeable as in the financial sector. This reciprocal dependency calls for a closer dialogue between the extensive bodies of knowledge – CPA and business power – with respect to the role of the state in this evolution, which opens a promising opportunity for a variety of scholars who focus on firms' nonmarket strategies to further engage in studying the privileged position of firms.

This dissertation contributes to the CPA literature, in that despite its extensive body of knowledge, scholars have tended not to focus on the way the "business's privileged position" variable affects firms' nonmarket strategy, not even among studies that revolved around sector-level analysis (e.g. Azaaviele Liedong, Aghanya, & Rajwani, 2020; Bhuyan, 2000; Grier, Munger, & Robert, 1994; Hillman & Keim, 1995; T. Lawton, Rajwani, & Doh, 2013; Rajwani & Azaaviele Liedong, 2015). This dissertation extends this body of research not only by examining CPA in the banking sector, but also by suggesting that some political strategies could be unique or exclusive to the privileged position of the banks. It highlights the significant effect of the banks' privileged position in capitalist economies, which is expressed in practice by state bodies that protect capitalists' interests. Therefore, the main banking regulators play a critical role in shaping the behavior of the banks as political actors in the nonmarket arenas. These insights demonstrate the important nexus between a privileged position and firms' nonmarket strategy.

Furthermore, government affairs departments (GADs) stand at the center of the CPA literature (Bernhagen, Dur, & Marshall, 2014; Getz, 2006; Thomas Lawton & Rajwani, 2013; Shaffer & Hillman, 2000). Despite the growing body of CPA literature, we know little about how macro-sectoral characterization, such as the privileged position of business, might influence the embeddedness of GADs in firms' corporate structure. This is one of the more interesting and less researched aspects in the study of CPA. However, even CPA scholars who have delved into GADs in the banking sector have not addressed it (e.g. Baysinger & Woodman, 1982; Moss, Mcgrath, Tonge, & Harris, 2012; Post, 1993). This dissertation provides a novel linkage between two bodies of knowledge, drawing on arguments from the business power literature and incorporating them into the CPA literature and suggesting that given the privileged position of the banks, whereby they are accorded protection by the banking regulators, their need to embed a consistent mechanism of government affairs in their corporate structure is attenuated.

This dissertation also contributes to the business power and the neo-Weberian approach to state capacity literatures. Lindblom's work has been heavily criticized theoretically and empirically in recent years (Lindblom, 1977). This dissertation contributes to the literature that focuses on the limits of traditional theories of structural power under highly politicized conditions. Scholars have suggested that business power declines substantially in highly politicized contexts where government leaders often face strong electoral pressures (e.g. Bell & Hindmoor, 2014b; Culpepper, 2011; Gibson, 1996; Jacobs & Shapiro, 2000; Smith, 2000; Young, Tarun, & Schwartz, 2018). However, this dissertation suggests that even under such conditions, state actors can still protect the privileged position of business using their *bureaucratic capacities*. It thus develops the state capacity approach (e.g. Cingolani, 2013; Gilbert & Howe, 1991; Mann, 1984; Rueschemeyer & Evans, 1985; Skocpol, 1985; Weiss, 1998), emphasizing the role of institutionalized prioritization of goals in enhancing state capacity, including bureaucratic capacity. It also enriches the theoretical debates that tie between the state capacity perspective and the business power literature (e.g. Bell & Hindmoor, 2014a; Bell & Hindmoor, 2017; Culpepper, 2015). Additionally, this dissertation bolsters the recent business power literature that suggests that the two forms of power (*structural* versus *instrumental*) often work together and can even be mutually reinforcing (e.g. Bell & Hindmoor, 2017; Culpepper, 2015; Fairfield, 2015; Young, 2015).

More on contributing to the state capacity approach: this dissertation contributes to the discussion on different modes of state actors' intervention in the neoliberal era (e.g. Block, 2014; Maman & Rosenhek, 2012; Roy, 1997; S. Vogel, 1996; Weiss, 2010), and modes of state intervention in corporate governance (e.g. Licht, 2012; Maman, 2004). The state capacity approach may therefore benefit from the insights of this research regarding the active role played by state actors in banks' political activity, including in the neoliberal era.

Beyond these theoretical contributions, this research project also makes a significant methodological contribution that can "travel" across nations and sectors. It employs an analytical framework to measures the embeddedness of government affairs departments in the corporate structure. In addition, it develops a novel typology for the recruitment sources of the two most senior management functions in banks (CEOs and chairpersons).

The Implications of the Dissertation for Other Audiences

Although this dissertation is rooted within the CPA, business power and state capacity literatures, it may be of interest to additional audiences. For instance, it may be relevant to management scholars who are interested in organizational change as a response to macro-sectoral characterization (e.g. Kotter & Schlesinger, 2008; Michel, Todnem By, & Burnes; Moran & Brightman, 2001). They may benefit from the insights this research provides regarding the effect of firms' privileged position on the embeddedness of their GADs in the corporate structure. Furthermore, management scholars that focus on resource-based view and dynamic capabilities (e.g. Bonardi & Vanden Bergh, 2015; Oliver & Holzinger, 2008; Wang & Barney, 2006) may utilize insights from this research to better understand how the privileged position of a firm affects its CPA strategy at the micro-level.

This dissertation may also be relevant to scholars interested in the academic field of banking (e.g. A. Busch, 2009; Strahan, 2010). It may provide them with a broader framework to analyze the uniqueness of this sector. Furthermore, it may be appealing to legal scholars who are interested in bank' corporate governance research (e.g. Adams, 2012; Berger, 2014; D. Busch, Ferrarini, & Soling, 2019; Hopt, 2014), and also to scholars of social movements (Amenta, Caren, Chiarello, & Su, 2010; Pagliari & Young, 2014) who are interested in the effects of social protest on decision makers and on firms' political activity. Additionally, this dissertation may provide Israeli political economy scholars with a broader framework to analyze, for instance, the key banking regulators' position and their relationship with the banks (e.g. Maman & Rosenhek, 2011; Mandelkern & Shalev, 2018).

Finally, this research project has important practical implications and may also appeal to audiences outside academia, for instance, the banking regulators and senior managers in the banks. From the CEOs' standpoint, as advantageous as the privileged position may be, they need to be aware of its costs. Their dependence on the protection they receive in the regulatory arena has influenced them as political actors, i.e., the banks were unable to block altogether or change reforms in the parliamentary arena by their nonmarket strategy, they did not embed the GADs in their corporate structure, and during the last decade they did not play a prominent role in the policy process or develop into sophisticated political actors. On the other hand, the banking regulators may utilize insights from this research in order to understand how the ways in which they choose to maintain the stability of the banks in the nonmarket arenas may weaken their and the banks' legitimacy. Moreover, the banking regulators have formidable autonomous and bureaucratic capacities to maintain the banks' financial stability, including by influencing the recruitment source types of bank chairpersons and CEOs. They should bear in mind that it is imperative to exercise such power with due care; otherwise, it may harm the financial governance of the banks.

Proposed Directions for Future Research

This dissertation points to several avenues for future research. *First*, my insights draw primarily on the experience in Israel, and differences in culture, regulatory environment or legal landscape can clearly matter. Therefore, further research is needed to confirm the ideas and elaborate on what has been claimed in this study. One may wonder whether the conclusions presented in this study would be comparable in a banking sector with a different supervisory structure or in less centralized banking sectors. Moreover, the conclusions presented in this study may apply differently in the dichotomous models of Anglo-American and Continental European corporate governance. *Second,* future studies can elaborate on how the privileged position of firms influences their evolution as political actors in various dimensions, for instance, to deepen our understanding at the micro-management level regarding how their privileged position has influenced the banks' nonmarket strategy. *Third,* future research can delve into types of banks and compare the effect of privileged position on the evolution of banks as political actors as follows: large versus small banks, or local versus international banks. *Fourth*, future study can address the effect of firms' privileged position on the broader function of CPA (i.e. corporate social responsibility) and what its implications are, throwing light on the effectiveness of CPA. *Fifth*, since this dissertation has demonstrated that the BoI's insistence that the banks be sold to private entities influenced the identity of the chairpersons/CEOs, and prior research assumes that the interests of managers are aligned with those of owners in regard to the choice of nonmarket strategy (e.g. Griffin & Dunn, 2004; Ozer, 2010), future research can analyze the connection between the owners' opinion and the senior managers' opinion in this regard.

Last but not least, looking ahead, my premise is that a new generation of CPA researchers is likely to be much more eager to understand how firms' political activity works together with the conceptual language inherited from past debates regarding structural power and state capacity, due to the growing understanding that the reciprocal dependence in capitalist economies between the state and private holders of capital as political actors affects us both as citizens and as consumers.

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תקציר

בשלושים השנים האחרונות, מתחילת הרפורמות הניאו-ליברליות, המורכבות הגוברת והתנודתיות של הסביבה התחרותית תרמו לפיתוח אסטרטגיות פוליטיות יזומות של חֲבָרוֹת (Firms), אשר נכנסו בכוונה תחילה לזירה הפוליטית בכדי להשפיע לטובתן על המדיניות הציבורית, הרגולציה והחוקים ובכך הפכו *לשחקנים פוליטיים* (Political actors). כתוצאה מכך הספרות העוסקת בפעילות פוליטית תאגידית (Corporate Political Activity), המהווה מסגרת רחבה להבנת החיים הפוליטיים של חברות, ממשיכה לצמוח ובכך לשקף את הסביבה העסקית ההולכת ונעשית יותר מורכבת ומגוונת. למרות זאת, ספרות זו אינה מתייחסת להתנהגות הפוליטית של חברות הנהנות ממעמד מבני מועדף (Structural privileged position).

המגזר הבנקאי לרוב מחזיק במעמד מבני מועדף בכלכלות הקפיטליסטיות, והמשבר הפיננסי העולמי בשנת 2008 חידד את הבנתנו שהמגזר הבנקאי ומגזרים פיננסיים אחרים הינם מגזרים ייחודיים. למרות ה׳רנסנס׳ של הספרות העוסקת בכח העסקים (Business power) בעקבות המשבר הפיננסי, ספרות זו המעיטה להתייחס לאופן בו המעמד המועדף של חברות משפיע על התפתחותן כשחקניות פוליטיות. לא רק זאת, ספרות זו צמצמה את התייחסותה לפעילות הפוליטית של חברה למונח של *כח אינסטרומנטלי* (כדוגמת שַׁדְלָנוּת ומתן תרומות), אשר אינו מקיף את מלא ממדי הפעילות הפוליטית. יתר על כן, ספרות זו אינה מתייחסת להשפעה של התלות ההדדית בין המדינה לבנקים בכלכלות קפיטליסטיות על התפתחותם של הבנקים כשחקנים פוליטיים. אחרי הכל, בשום מגזר אחר התלות ההדדית הזו וההשלכות האפשריות של קריסת חברה בודדת אינן מרחיקות לכת כמו במגזר הבנקאי. לכן, תלות זו מחייבת שיח הדוק יותר בין תחומי המחקר השונים – פעילות פוליטית תאגידית וכח העסקים – זאת ביחס לתפקיד המדינה בהתפתחות החברות הללו כשחקנים פוליטיים.

מחקר זה שואף לגשר על הפערים התיאורטיים הללו על ידי בחינת התפתחות הבנקים הישראליים כשחקנים פוליטיים באמצעות מחקר אורך שנמשך כשלושה עשורים (מתחילת שנות ה-90 ועד 2019), תוך תרומה אמפירית לספרות העוסקת בכלכלה הפוליטית בישראל. מטרות המחקר הן ראשית, המשגת המשתנה התלוי המורכב ׳התפתחות הבנקים כשחקנים פוליטיים׳; שנית, העמקת הידע וההבנה לגבי הקשר בין מעמדם המועדף של הבנקים לבין התפתחותם כשחקנים פוליטיים; ושלישית, זיהוי הדרכים בהן הרגולטורים הבנקאיים שומרים על מעמדם המועדף של הבנקים, ומה השפעתה של שמירה זו על התפתחות הבנקים כשחקנים פוליטיים.

המאמר הראשון בוחן את המאבקים על רפורמות העמלות הבנקאיות בישראל והשפעת הפוליטיזציה ״הרועשת״ של המחאה החברתית-כלכלית בשנת 2011 על מאבקים אלה, בכדי להדגים כי שחקן מדינתי יכול, באמצעות יכולתו הבירוקרטית, לדבוק ברעיונותיו המרכזיים ולהגן על מעמדם המועדף של עסקים אפילו בתנאים אלה. הממצאים האמפיריים מצביעים על כך שההגנה שהבנקים קיבלו בזירה הרגולטורית בכדי לשמור על יציבותם הפיננסית השפיעה עליהם כשחקנים פוליטיים. המאמר מבוסס על מעקב אחר תהליכים אינדוקטיביים מעמיקים המשתרעים על פני כשלושה עשורים (1990-2018). המאמר מנתח מופעי מדיניות העוסקים בעמלות הבנקים, כדוגמת 30 פרוטוקולים מדיוני הכנסת ו- 40 הצעות חוק פרטיות, בנוסף לעריכת עשרה ראיונות מובנים למחצה.

המאמר השני ממשיך באותו הקו ובוחן באיזה אופן המעמד המועדף של הבנקים משפיע על התפתחותם כשחקנים פוליטיים, ומתמקד בהטמעת מחלקות קשרי הממשל של הבנקים במבנה התאגידי. המאמר מציג ממצאים ממחקר מקדים שערכתי שעקב אחר היווצרותם והטמעתן של מחלקות אלה בבנקים, ומצא תנודתיות גדולה של יחידות אלה במבנה התאגידי. בכדי להבין האם מקור תנודתיות זו נעוץ במעמד המועדף של הבנקים, נערך ניתוח השוואתי (1998-2018) בין הטמעת מחלקות אלה בקרב הבנקים לבין הטמעתן בחברות הפועלות בארבעה מגזרים עם מאפיינים דומים, זולת המשתנה הבלתי תלוי, 'מעמד מועדף'. הממצאים מראים כי תנודתיות זו מצביעה על כך שהבנקים לא הטמיעו מחלקות אלה במבנה התאגידי שלהם בהשוואה למגזרים הלא בנקאיים, כשההסבר טמון בכך שבשל מעמדם המועדף של הבנקים בזירה הרגולטורית, לא היה להם צורך להטמיע מנגנון עקבי של יחסי גומלין עם בנק ישראל והפיקוח על הבנקים.

המאמר השלישי בוחן את הגורמים המשפיעים על מקורות הגיוס של שני התפקידים הניהוליים הבכירים בבנקים, יו״ר הדירקטוריון והמנכ״ל. המאמר מציג מחקר איכותני מעמיק המשרטט את מקורות הגיוס של היו״רים והמנכ״לים מקום מדינת ישראל ועד לשנת 2019, תוך התבססות על טיפולוגיה מקורית ומערך נתונים הכולל את הפרופיל המקצועי של 87 מנהלים אלה מהעבר ומההווה. תוצאות המחקר מלמדות כי בנק ישראל והפיקוח על הבנקים משפיעים על סוגי מקורות הגיוס של מנהלים אלה לאורך השנים באמצעות אמצעים רשמיים ולא רשמיים בכדי להבטיח את היציבות הפיננסית של המערכת הבנקאית בטווח הארוך.

שלושת המאמרים מראים כיצד הרגולטורים הבנקאיים ממלאים תפקיד משמעותי בהתפתחות הבנקים הישראלים כשחקנים פוליטיים בזירה הפרלמנטארית ובזירה הרגולטורית, באמצעות הדרכים בהן הם שומרים על יציבות המערכת הפיננסית. חשיבות מאמרים אלה נובעת מן העובדה שהם מראים את הצורך לחיזוק השיח האנליטי והתיאורטי בין הספרות העוסקת בפעילות פוליטית תאגידית, לזו העוסקת בכח העסקים, תוך התייחסות לתפקיד המדינה, ובכך הם מהווים תשתית מחקרית עבור חוקרים נוספים להעשרת שדה מחקרי זה.

עבודה זו נעשתה בהדרכתו של

פרופ׳ דוד לוי-פאור

התפתחות הבנקים בישראל כשחקנים פוליטיים:

ניתוח האסטרטגיות הפוליטיות שלהם בזירה הפרלמנטארית ובזירה הרגולטורית

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