



## Insight #7: Certain Transaction-Related Employment Matters

**Israel's Labor Relations Are Highly Regulated.** The State of Israel has enacted a number of laws determining minimum applicable standards of employment in matters such as wages, overtime work and overtime payments, termination notice and rights upon termination, annual vacation, sick leave, convalescence payments, pension savings, discrimination and harassment at the workplace etc. Other employment-related aspects are regulated through administrative orders with general applicability. Deviation from these minimum standards might have criminal implications. Make sure the company strictly follows the minimum standards required under law and applicable regulatory actions.

**When you Purchase a Business you Purchase Its Employment History.** Israeli employees enjoy continuity of employment in many forms of merger and acquisition transactions. This is true whether you acquire an Israeli company and ask all employees to sign new employment contracts, merge an existing Israeli company into a different company, and even if you acquire the business and assets of an Israeli company: as long as the employees maintain a connection to their employer or to their workplace, continuity will apply. You might accordingly find yourself inheriting gaps and deficiencies belonging to a pre-closing employment period, or required to grant rights based on tenure accrued during a pre-closing employment period. Make sure you cover these matters in your due diligence and take them into account when pricing the transaction and agreeing post-closing employment terms.

**Note the Effect of Various Benefits on Salary Cost.** Israeli employees are entitled to various benefits under law in addition to their base monthly salary: overtime payments, annual leave days, convalescence payments, pension savings etc. These payments are often based on the monthly base salary, and when aggregated can average 25% - 30% of the monthly base salary – an amount that the employer will need to fund each month. When negotiating and agreeing salaries, make sure to take this into consideration, and make sure

both parties are speaking the same language: if you are negotiating the overall salary cost and not just the base salary, make sure the other party understands this in order to avoid significant gaps in expectations.

**Mind the Company's Overtime Payment Obligations.** Overtime payment obligations often constitute a significant portion of an Israeli company's labor costs. Some companies may try to avoid this cost by claiming that certain individuals are not entitled to overtime payment, e.g. because they are senior executives or because they are in a position of trust. Note that while such exceptions do exist under law, they have been very narrowly construed and applied by the courts and should be reserved to a very small number of very senior executives at most. Many companies apply a "global overtime payment" scheme under which they pay their employees a fixed amount each month as compensation for overtime work. Make sure a local expert carefully reviews any such arrangements and advises you of their implications.

**Check for Collective Bargaining Arrangements.** While smaller Israeli companies are typically not party to collective bargaining arrangements which apply specifically to them, this might be different for larger companies, including technology-oriented companies. The economic challenges faced by various industries and companies in Israel, such as the telecommunication industry, resulted in a growing tendency of employees to seek the assistance and protection of local unions. Make sure to cover this matter in your due diligence, and if there is a collective bargaining agreement in place, verify in advance how it affects the transaction itself as well as your post-closing relationship with your employees.

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