

# **Study for the Collective Impact Initiative:**

## **Employment of Arab Society in the Private Sector in Israel -**

### **Current Situation, Identifying Opportunities, Barriers, and Building Models for Change**

## **Introduction – background, goals, and methodology**

Arab society, which comprises 20% of Israel's citizens, has to deal with difficulties, barriers, and disparity in employment. In the national perspective, employment of the Arab population is a significant social, economic, and political challenge. Although awareness of the severity of the situation is growing in both the public and business sector, significant change has yet to be achieved.

The employment situation in Arab society is especially difficult, with regard to the overall socio-economic situation in Israel. The Arab society suffers from over-representation in negative socio-economic indicators, in contrast to underrepresentation in positive indicators. Accordingly, we can see that the number of Arabs from within the poor and unemployed populations is significantly higher than their representation in the overall population (44% and 25% respectively). On the other hand, in the positive indicators, the numbers of the Arab population in the overall workforce, the number of managers and employees in successful industries such as high-tech, is significantly lower than in the overall population (15%, 4%, and 2%, respectively.)

The working Arab population is mostly employed in Arab-owned businesses (i.e., in the "Arab business sector") and in the public sector serving the Arab population. Integration in the business sector as a whole – the main employer of the Jewish population – is lower and is the key factor in the disparities between the populations. The difficulty of integrating in the general business sector leads to the employment of a greater part of the Arab population in positions that are not adequate to their qualifications.

The data on employment of Arab society has a direct influence on the macro-economics of the country. Findings from a study by the Bank of Israel in 2012 show that non-employment of Arabs leads to annual GDP losses of NIS 31 million. This vast human resource can integrate into the labor market and become a significant growth engine for the country's economy. The Israel Democracy Institute recently determined that "dealing effectively with structural discrimination requires leading the employers to initiate activities to change the organizational culture and remove structural barriers that make things difficult for the groups discriminated against. This prolonged market failure requires intervention of all mutual stakeholders to find a solution."

The social and macro-economic impact associated with the low percentage of employment in Arab society has led to a number of government decisions aimed at advancing the subject. As a

continuation of the process that started in 2008, the Government of Israel is taking action to raise the employment percentage of Arab men ages 25-64, from 72% in 2011, to 78% in 2020, and among women ages 25-64 from 27% to 41% within the same timeframe.

**"Collective Impact"**, the partnership for advancing employment in Arab society, was founded in 2013, with the vision of achieving a breakthrough in the integration of Arab society in the Israeli economy, focusing on the private business sector and with an emphasis on positions that match the employees' qualifications. The founding partners of the initiative are graduates of Class 24 of the Wexner Israel Fellowship at Harvard's Kennedy School of Government, to advance public leadership in Israel.

The initiative chose to act according to the "Collective Impact" model. This approach involves all stakeholders in finding a solution to a complex social problem, with widespread influence, and a long-term commitment to a common agenda and measurable goals. The initiative functions as an integrating body and enables partnership in the process.

The "Collective Impact" initiative is built on two mainstays. The first, active measures to mobilize the business sector to lead to a breakthrough with concrete commitments to the targets and to measure the percentage of Arabs placed in appropriate positions. The second, to build a network based on all the sectors (government, Arab society, the third sector, philanthropy, business sector), under the working hypothesis that a sustainable, long-term, comprehensive breakthrough is only possible to achieve through inter-sectorial cooperation.

To establish the first mainstay, the Shaldor consulting firm was asked to do an in-depth study, which would provide the foundation for planning work models, based on a "business case", that would be validated in practical measures with the various employers in the business sector. These models would provide the operative basis for the "Collective Impact" initiative's further activities, which will gradually expand with a growing number of employers.

## **Goals**

The goal of the initiative is to achieve a breakthrough in the employment of the Arab population in appropriate employment by changing employer attitudes and practices, embedding a perspective of business viability for employing from the Arab population, and in-depth work on existing barriers to integration and advancement. This will lead to increasing the contribution of Arab society to the Israeli economy and its growth, alongside improvement of the economic and employment situation within Arab society, eradication of discrimination and strengthening co-existence between Arabs and Jews in Israel.

To achieve this goal, three targets were defined for the initiative study and planning process, with the help of Shaldor:

1. Characterizing the needs of the labor market and the necessary solution – characterizing the "business sector needs" and those of the labor market alongside an in-depth understanding of the need for accommodation between these needs and those of potential employees in the Arab population.
2. Defining the range of benefits derived from employing from the Arab population, and the implications of the solution for the labor market – defining the operative benefits and implications for employers in the business sector and the economy in general, in relation to employment of the Arab population.
3. Increasing and realizing the potential of a breakthrough in employing the Arab population – formulating an effective mode of action for employers in the business sector for employing the population.

## **Methodology and data gathering**

The basic question in the study and planning process– what is the optimal model for action to:

- Achieve a breakthrough in employment of the Arab population in the private sector, by:
- Leverage the existing knowledge and best practices among the relevant stakeholders (employers, Arab employees, philanthropists, government, NGOs)

- Apply a wide and in-depth perspective regarding the current situation and forecasts for Arab population participation in the private sector – status quo, barriers, potential opportunities and targets.
- Examine the supply within the population – adults, students, professionals

The study process includes both initial and secondary research. The purpose of the secondary research is to deliver a broad and up-to-date picture of the situation of the Arab population in the Israeli labor market. To this end, we built an extensive fact base, by gathering information and integrating existing data from a wide range of sources, including the Central Bureau of Statistics, the Government, and especially the Ministry of Economy, academia, and third sector organizations. Alongside the fact base, we held interviews with relevant key players from the various sectors. These interviews provided a broad and diverse perspective from different angles on the subject of employment of the Arab population:

1. Arab-owned companies and Arab business people
2. "Agents of change" - advertising agencies, placement agencies
3. Public/government sector organizations
4. Third sector organizations

The initial and main study focuses on employers in the business sector, and is based on interviews with CEOs, executive managers, and HR managers of 50 leading companies, comprising a representative sample of companies at the core of the Israeli business sector.

### **The analytic approach guiding the initiative study and planning activities**

In light of the complexity of the challenge to achieve a significant breakthrough in employment of Arab society in the business sector, the study presented in this report was performed under the principle of identification of and focus on the main levers to achieve substantial change.

This analytical approach has implications that will guide and focus the efforts of "Collective Impact" and its partners – especially at the initial stage of activity.

Specifically, the study calls for focusing on the group of candidates on the supply side, with the highest potential to assimilate into the business sector. In parallel, the study calls for focusing on the leading employers on the demand side, in the main industries that lead to growth in the business sector.

## **Executive Summary – the main findings of the study process**

### **The status of Arab society in the Israel labor market**

- Macro-economic analysis of the Israeli economy shows a significant growth trend in relation to the other OECD countries, with the business sector and especially its growth engine industries (high-tech, professional services, financial services), which are its growth engine. Notwithstanding, the Israeli labor market is polarized and shows growth with negative indicators of inequality and disparity in salaries between the upper and lower percentiles.
- Arab society, which comprises 20% of the citizens of Israel, is not benefitting from the economic growth, and is characterized by occupations at the lower end of the labor market. This phenomenon is reflected in the negative representation in positive indicators, such as the number of all the members of the workforce, (15%) and contribution to the GDP ( 8%), and over-representation in negative indicators such as number of poor (44%), and unemployed (25%). The main reason for that stems from non-integration of Arab workers in the core of the business sector and especially the four growth engines that are characterized by rewarding jobs relative to other sectors. Only 5% of all business sector employees are from Arab society.
- According to data from 2012, 136,000 of the Arab population are underemployed at some level. They can be divided into four groups that do not realize their employment potential in the labor market: not a part of the labor market but are available and interested in finding work (48,000); laid off (27,000); part-time employment (31,000); educated and employed in jobs that are not appropriate for their qualifications (30,000)
- The Arab population that is underemployed is projected to increase to 230,000 citizens by 2020.

- The underemployed Arab population can be divided into 32 defined segments according to 5 parameters: gender, age, employment status, geographic location, and education. Analysis of the barrier level unique to each segment shows that 70,000 candidates are in the target group that is more "accessible" for integration in the business sector. Each one of the segments has a different level of potential impact as a result of improvement in employment status. Impact is reflected in salary increase, number of employees and improved perceptions as a result of integrating academics and women from Arab society in the core of the business sector. By 2020, the "accessible" segment of the population is expected to reach 126,000, and the percentage with higher education (academics and professional training) is expected to rise (90,000).
- The four growth engines are the major integration potential for the "accessible target group". The number of job placements for academics and professionals in these fields was 90,000 people in 2012. There are 21,000 candidates from Arab society with relevant education to meet demands. There is a difference between the relative demand (20% of placements) and the supply of relevant candidates. In high-tech and industry projections indicate a lack of candidates, in financial services projections indicate a balance between supply and demand, in professional services projections indicate an apparent excess of supply from Arab society.

**The perspective of employers in the business sector regarding integration of employees from Arab society**

- In order to understand the perspective of demand in the integration of employees from Arab society in the business sector, Shaldor held 90 in-depth interviews with CEOs, deputy CEOs, HR managers and personal managers among 46 of the largest and most influential companies in the business sector. They represent the various branches of the business sector, with an emphasis on industries with rich human capital, and that have no ties to the public sector. The mix of industries and companies was determined according to economic and employment characteristics, and the presence of Arab employees.
- The percentage of Arab employees in the companies we interviewed was 7%, which comprises 35% in the representation index (the ratio between the percentage of representation of Arab workers in the company and that of Arab society in the general

population.) When subtracting "leading companies", with especially high employment rates (chosen for that reason), the number of Arab workers stood at 5% (25% in the representation index). A total of 7 companies with more than 20% Arab workers. Most of the Arab employees are in low-tier positions that do not require special qualifications. The number of Arab workers in middle management and/or staff positions was an average of 0.3% of the workers in the sample companies (no company had appropriate representation of Arabs in management positions).

- The most significant "business case" that employers recognize in employing from Arab society stems from the improvement in HR management – increasing the recruitment pool, company loyalty, and reduced turnover rate. In addition, most of those interviewed (85%), agreed that improving the employment of Arab workers in the business sector is of significant social and national importance.
- The main barrier to integration of employees from Arab society, as noted by 80% of the employers, is the lack of accessibility to appropriate candidates. The second barrier is geographical, as noted by 30% of the employers. Additional barriers are categorized under "indirect inaccessibility" and "structural cultural barriers", as noted by 5%-25% of the employers in the sample.
- The companies in the sample can be categorized according to level of organizational maturity of the company in its efforts to integrate Arab workers. There are four levels of maturity, each with a different operative failure in the integration process: "declaration", "intent", "acceptance", "proactive responsibility" (in ascending order). As a whole, the level of organizational maturity of employers is tied to their level of awareness of the "Business Case" in hiring Arab employees and in the diverse benefits that stem from integrating Arab employees.
- To "tailor" operative models to confront the failures, it is important to characterize each company according to two dimensions: the level of organizational maturity that reflects the employer's level of commitment to make modifications that will enable recruitment of Arab employees, and the complexity of placement that expresses the level of difficulty in staffing the relevant occupations.
- The division of employees according to these two dimensions is the basis for 4 operational models that characterize the efforts necessary to achieve a breakthrough in the integration of the Arab population in the business sector

- a) Upward Mobility – to deal with the challenge of development and advancement of junior employees to senior management/staff positions.
- b) Matching Supply and Demand – to deal with the challenge of effective matching, while shortening the learning curve in modifying the recruitment process.
- c) Raise Awareness and Mobilize – to deal with the challenge of changing perceptions and rallying employers through the clearest business case – benefits in HR management.
- d) Human Capital Development– to locate and place outstanding candidates in complex positions, required to deal with the challenge of lack of accessibility to Arab candidates in positions with a high ratio of demand/supply.

The four operative models presented in the report were built according to groups of employers in order to successfully deal with the various failures that characterize each segment. The main challenge for the initiative in its activity facing the employers, was defined for each model. In addition, the relevant tools to handle each challenge were determined.

The next stage faced by the "Collective Impact" initiative together with the partners from the three sectors and with the professional guidance of Shaldor, is to characterize the relevant tools for the activities within the framework of the operative models and in facing the employers in the different segments. For this, a limited number of core companies will be chosen for the pilot, by which the models will be assessed and validated.