



DOUBLE IMPACT

The Arab employment
business case

Executive Summary

Co-Impact, the partnership for a breakthrough in Arab employment, aims to integrate the Arab society in employment, the economy and society in Israel.

To date, the initiative assisted 42 major private sector companies to develop diversity and inclusion practices, and successfully integrate Arab employees.

Over the years, companies have identified significant business, organizational and social benefits to diversity and inclusion processes, **the ability to translate those benefits to economic and financial impact was limited.**

In order to highlight and formalize the economic & financial impact diversity and inclusion practices may have on organizations, Co-Impact and TASC Consulting & Capital conducted a financial impact study, aimed to analyze, quantify and develop a methodology that aims to estimate the impact of Arab worker's inclusion on companies' profitability.

The study included a wide variety of information sources and research methodologies, which led to new findings regarding diversity & inclusion practice's impact in Israeli organizations, as well as work dynamics of the Arab Israeli society:

- **Case studies and best practices based on in-depth interviews** with organizational functions (Company's CEOs, business related functions, HRs, etc.) in over 15 major Israeli companies, from varying industries (e.g. consumer goods, professional services, high-tech, etc.)
- **Analysis of** socio-demographic data, trends in higher education, household consumption patterns, and other **indicators regarding the Arab society.**
- **A LinkedIn-based study which included over 300 graduates** from leading universities in Israel, and examined the average retention of Arab Israeli academic graduates compared to non-Arab graduates.
- **Literature reviews and meta-analyses which analyzed the relationship between diversity & inclusion (D&I) and employee engagement, as well as the impact of those factors on companies' financial performance.** In order to translate the findings from the global setting to the Israeli setting, TASC conducted a survey among 600 Israeli respondents, to validate the global findings and adjust them locally.

The study mapped 9 key business benefits to inclusion and integration of Arab employees, among them are increased & improved business activity among Arab speaking markets in Israel & abroad and human capital related benefits, including higher retention rates, broader talent pool and higher organizational engagement among employees.

Those benefits may lead to significant financial benefits, contributing 1-5% to organizations' annual profit (in terms of EBITDA) annually.



The study illustrates that an effective integration and inclusion of Arab employees may lead to significant financial benefits, contributing 1-5% to organizations' annual profit (in terms of EBITDA) annually.

Interviews with over 15 Israeli leading firms revealed nine major benefits related to diversity and inclusion

Most common benefits (Mentioned by most of the companies):

1

Increased market share among Arabic speaking customers

Integration of Arab employees may increase the market share among Arabic speakers in Israel and around the world, by adjusting the products, marketing, and distribution channels, support services, and other aspects to suit customers and their needs.

2

Increased retention rates

Arab employees exhibit higher retention rates in their workplace, thus reducing costs associated with employee turnovers, such as recruitment, loss of efficiency and accumulated knowledge.

3

Broader Talent Pool

Reaching out to Arab candidates can broaden the supply of suitable candidates, and enable companies to continue growing their business activity.

4

Increased employees engagement

Diversity and inclusion practices positively affect employee's organizational engagement, which improves their productivity and contribution to their organizations.

Additional benefits (Mentioned by some of the companies):

1

Higher rates of creativity and innovation

Diversity and inclusion contribute to employee's openness to new ideas and boosts creativity and innovation, and can be expressed by increased launches of new products and improved ways of problem-solving.

2

Improved corporate reputation

Employment diversity creates a positive perception of the organization among the companies eco-system (business community, suppliers, employees, strengthens company's brand.

3

Access to new suppliers

~10% of businesses in Israel are owned by Arabs, and there are dozens of potential Arabic-speaking suppliers outside Israel. Employing Arab workers may increase the access to these suppliers, and to enhance the supplier's pool, improve quality and efficiency.

4

Government incentives

The use of government incentives, such as employment benefit tracks (4.17, 4.18, 4.20), which incentivize the integration of Arab workers, may provide substantial economic benefits, such as participation of about 20-30% in the employee's salary for four years.

5

Business Continuity

Arab employees can complement enhance company's utilization and productivity, by working on Saturdays and Jewish holidays. This enables continuous business activity throughout the year and provides a solution to customers who require a 24/7 availability.

In order to quantify the financial impact of inclusion, we focused on the common benefits identified by the companies and the benefits which could be directly measured

Increased market share among Arabic speaking customers

The Arab community in Israel has a significant purchasing power, which is expected to continue growing. Integration of Arab workers in senior staff and field roles can lead to growth in market shares, due to their ability to improve and adjust companies' understanding of the population's needs, culture and language. They can assist companies to adjust their marketing strategies, distribution and sales channels, as well as their support services, and provide an accurate value proposition which will lead to sales growth.

20%

Arab household constitute about 20% of the total consumption in the Israeli economy.

10%

Arab Israelis own about 10% of businesses and 2% of companies employing over 50 employees in Israel.

14%

About 14% of Arab households in Israel belong to the sixth decile of income and above

Broader Talent Pool

Skilled, loyal, reliable, and professional human capital is the backbone of any business. Companies invest substantial efforts in identifying and retaining relevant and quality employees.

Therefore, approaching candidates from the Arab society can increase the supply of potential candidates (talent pool) and allow companies to expand grow their activities.

17%

~17% of higher education graduates in Israel are Arabs, significant growth which is expected to continue in the coming years

12,000

~12,000 Arab students per year in STEM & business related professions (engineering, sciences, business, law, accounting etc.)

X3

Between 2012 and 2018, the number of Arab Israelis employed in high-tech professions tripled.

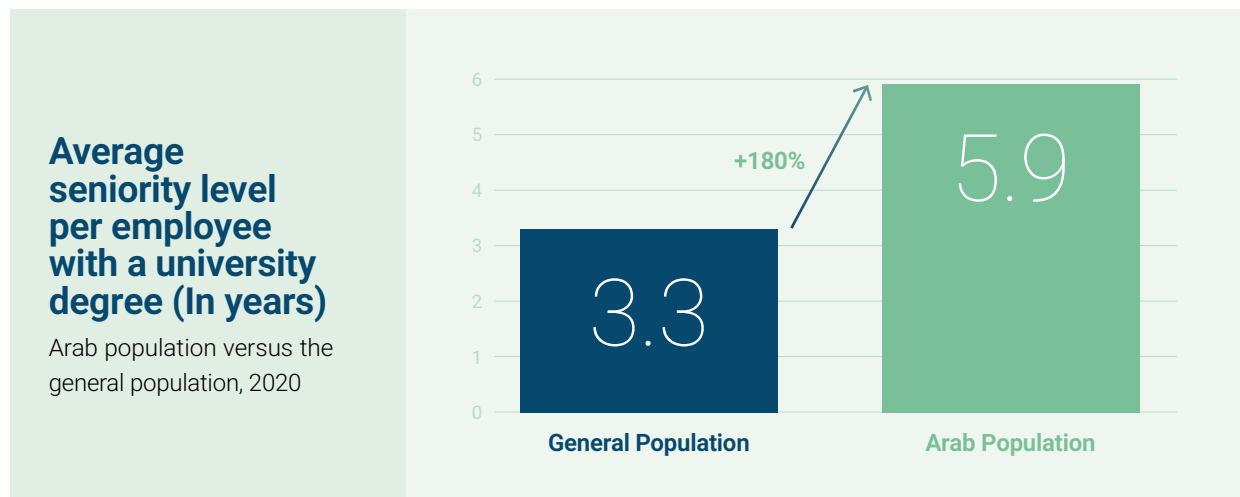


In order to quantify the financial impact of inclusion, we focused on the common benefits identified by the companies and the benefits which could be directly measured

Increased retention rates

Retaining quality employees over time is one of the most significant challenges for many organizations. As the turnover rate rises, companies must increase their recruitment and invest more in employee training.

Incorporating Arab employees, which show higher retention rates, may lead to higher productivity and reduced attrition related costs (recruiting, loss of knowledge, etc.)



Source: Sample and analysis of TASC, based on a sample of 300 LinkedIn profiles of 300 university graduates

Increased employees engagement

Promoting diversity and inclusion practices signals to employees the company's values, its concern to individual's well-being, its investment in human capital, and the degree of openness to different opinions. These effect the employee's engagement to their organization, and motivates them to contribute to the organization's success. Hence, the integration of Arab employees may positively affect the organizational engagement of all employees and increase their productivity.



Source: TASC's assessment based on a meta-analysis that included about 3 million employees worldwide (Gallup, 2020), per the average wage in the Israeli economy; TASC's survey on the relationship between diversity and inclusion to organizational connectivity, controlling to 600 employees in Israel (based on the Downey et al., 2015 methodology) *

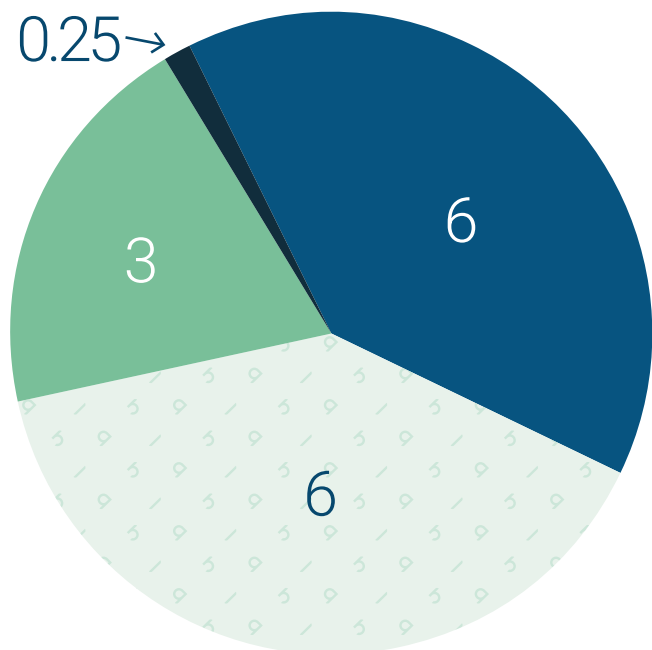
* This survey corresponds with an international study that found a similar result. Source: Downey, S. N., van der Werff, L., Thomas, K. M., & Plaut, V. C. (2015). The role of diversity practices and inclusion in promoting trust and employee engagement. *Journal of Applied Social Psychology*, 45 (1), 35-44. ** Source: The Relationship Between Engagement at Work and Organizational Outcomes - Meta Analysis

Calculating the economic potential for sample companies

(Illustrative figures; based on the results of the TASC's diversity & inclusion impact calculator)

Consumer Goods Company

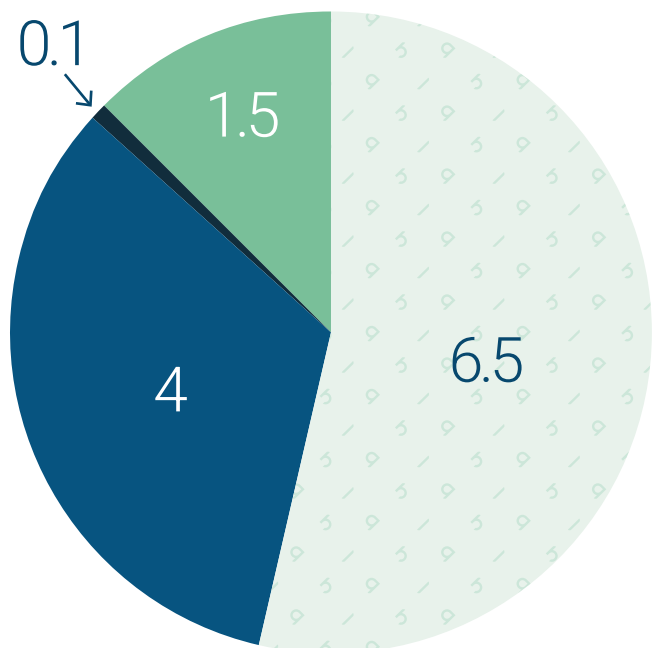
Increase in profit due to full realization of inclusion benefits, millions of NIS per year



Addition of ~16 million NIS per year, about 0.5% of the revenue and 5% of total EBITDA (about 6,000 employees)

Software Company

Increase in profit due to full realization of inclusion benefits, millions of NIS per year



Addition of ~11 million NIS per year, about 0.7% of the revenue and 2% of total EBITDA (about 2,000 employees)

* The increase in profit due to a broader talent pool only calculates the financial impact related directly to recruitment processes. In addition to this impact, there is a substantial business gain based on the ability to hire new positions to the organization, for example increased productivity and ability to growth, reduced burn-out of employees which need to cover for the open positions, etc.

Calculating the economic potential for sample companies

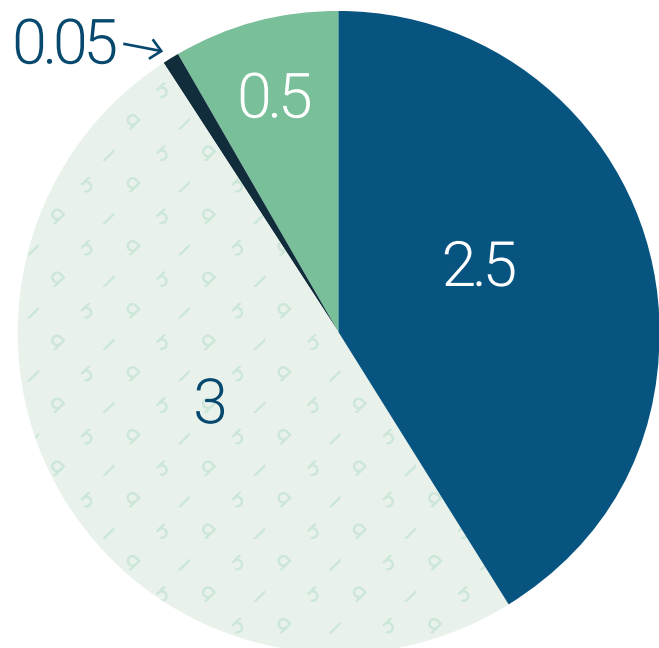
(Illustrative figures; based on the results of the TASC's diversity & inclusion impact calculator)

Service Company

Increase in profit due to full realization of inclusion benefits, millions of NIS per year



Addition of ~6 million NIS per year, about 1% of the revenue and 4% of total EBITDA (about 1,000 employees)

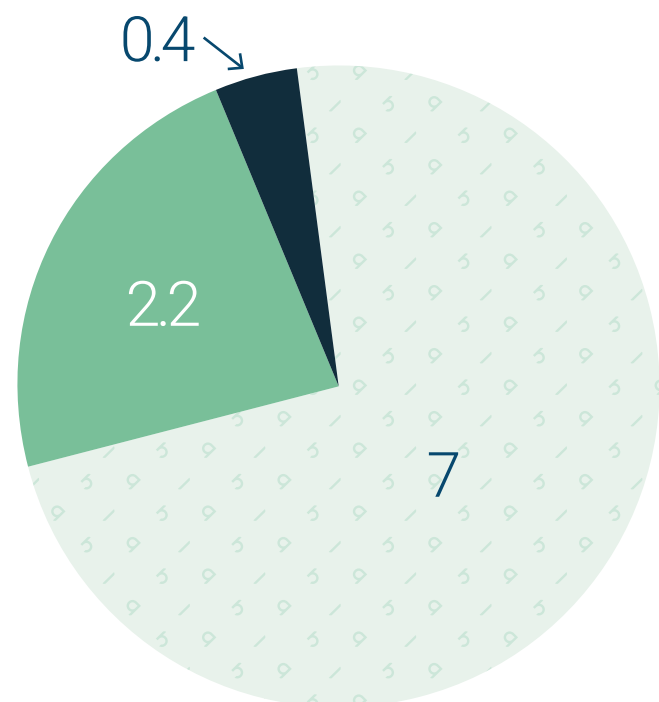


Exporting Factory

Increase in profit due to full realization of inclusion benefits, millions of NIS per year



Addition of ~10 million NIS per year, about 0.5% of the revenue and 4% of total EBITDA (about 3,000 employees)



* The increase in profit due to a broader talent pool only calculates the financial impact related directly to recruitment processes. In addition to this impact, there is a substantial business gain based on the ability to hire new positions to the organization, for example increased productivity and ability to growth, reduced burn-out of employees which need to cover for the open positions, etc.

** The calculation excludes potential income from Arabic-speaking countries, which could grow due to the inclusion of Arab workers in key roles related to sales & marketing to Arab speaking countries.

In order to realize the economic benefits which stem from integrating Arab employees, companies must adopt several practices, including:

- Buy-in and support from senior management
- Middle management engagement to promote diversity and inclusion and understand the benefits of a diverse workforce
- Definition of goals for diversity and inclusion at a company level, a supportive work plan, and dedicated roles of diversity champions
- Integration of Arab employees in key positions, at the organization's headquarters and management, and as many organizational units as possible (sales, marketing, procurement, human capital, development, etc.)
- Inclusion of Arab workers in decision-making processes, in order to boost creativity and innovative ways of thinking
- Positioning as a diverse and inclusive employer as a strategic goal for the organization
- Adapting the screening and recruitment process to diverse populations
- Developing an organizational culture that promotes diversity and inclusion- internal communication, use of Arabic language, recognition of holidays and diversity and inclusion training to managers and employees.



Summary and Key insights:

- The study shows nine potential business benefits which stem from diversity & inclusion of employees from the Arab society: increasing market share among Arabic-speaking customers in Israel and around the world; access to new suppliers; business continuity; broader talent pool; higher employee retention; rise in organizational engagement; boost creativity and innovation and better corporate reputation.
- It is evident that human capital related benefits (talent pool, higher retention rates, and rise in engagement) are significant and evident in all the companies surveyed. An additional major benefit is the potential to increase market share among the Arab society.
- The importance of attracting Arabic-speaking customers is expected to increase in the coming years and significantly encourage the integration and inclusion of employees from the Arab community in various organizations. The trend is expected to continue, as a result of economic development related trends in the Arab society in Israel (for example, higher rate of higher-education graduates) and the normalization agreements with several Arab countries, such as the UAE, signed in 2020.
- The study illustrates that the degree of impact of each benefit may vary based on the organization's characteristics. For example, increasing market share in Arab society is expected to be more evident in organizations that sell directly to consumers (B2C). Alternatively, human capital related benefits (talent pool, retention, engagement) are expected to increase as employee's wage costs constitute a more significant component of organization's financial activity.
- A critical variable for the success of realizing the economic potential of diversity and inclusion is the involvement of the organization's management, a deep understanding of the benefits, perseverance, and diligent work to realize them, including planning and promoting organizational goals that connect diversity and inclusion to potential organizational benefits.
- **The potential economic benefits indicate a possible contribution of 1%-5% to the organization's profit margin (in terms of EBITDA) annually**, which may add up to millions of NIS per year for large organizations.
- The benefits were calculated using a digital calculator developed as part of the study, adapting itself to each company's data. The calculator is accessible on Co-Impact's website.



**Do you want to calculate your organization's
profit margin potential?**

Click here to use the digital calculator on Co-Impact's website

