

## **Motivating the Workforce: A Key to Enhancing Financial Performance in Lebanese SMEs**

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DOI: 10.46609/IJSSER.2024.v09i10.048 URL: <https://doi.org/10.46609/IJSSER.2024.v09i10.048>

Received: 7 August 2024 / Accepted: 30 September 2024 / Published: 26 October 2024

### **ABSTRACT**

*Employee motivation is a critical factor influencing the financial performance of small and medium-sized enterprises (SMEs) in Lebanon. In a challenging economic landscape marked by political instability and financial uncertainty, understanding how to effectively motivate employees becomes essential for business success. This study examines the relationship between employee motivation and financial performance within Lebanese SMEs. Utilizing a quantitative approach, data were collected from 250 SME employees and managers through a structured questionnaire. The findings reveal a strong positive correlation between employee motivation and key financial performance indicators, including productivity, profitability, and employee retention. The results suggest that SMEs that prioritize motivational strategies, such as recognition, career development, and supportive workplace environments, experience enhanced financial outcomes. The study concludes with recommendations for SME owners and managers to implement effective motivational practices, thereby fostering a motivated workforce that contributes to sustainable business growth and success in the Lebanese market.*

**Keywords:** Employee Motivation, Financial Performance, SMEs, Workforce engagement, Lebanon

### **1. Introduction**

Small and medium-sized enterprises (SMEs) are essential to the economic landscape of Lebanon, contributing significantly to job creation, innovation, and the overall stability of the economy. According to the Lebanese Ministry of Economy and Trade, SMEs represent over 90% of businesses in the country, employing a substantial portion of the workforce<sup>[1]</sup>. However, despite their critical role, many SMEs struggle to maintain competitiveness and achieve sustained growth, particularly in the face of ongoing political instability, economic crises, and fluctuating market conditions<sup>[2]</sup>.

One of the primary factors influencing the success of SMEs is employee motivation<sup>[3]</sup>. Motivated employees are crucial for driving productivity, enhancing service quality, and fostering innovation—elements that are vital for the survival and growth of any business. Conversely, low levels of motivation can lead to decreased productivity, higher turnover rates, and diminished organizational performance<sup>[4]</sup>. Given the complex challenges faced by Lebanese SMEs, understanding the dynamics of employee motivation and its impact on financial performance is more critical than ever.

Employee motivation can be defined as the internal drive that encourages individuals to take action toward achieving personal and organizational goals. It encompasses various elements, including job satisfaction, recognition, career development opportunities, and a supportive work environment<sup>[5]</sup>. Theories of motivation, such as Maslow's Hierarchy of Needs and Herzberg's Two-Factor Theory, emphasize the importance of addressing both intrinsic and extrinsic factors to foster a motivated workforce<sup>[6][7]</sup>. In Lebanon, where many SMEs operate with limited resources, effective motivational strategies can be a powerful tool for enhancing employee engagement and performance<sup>[8]</sup>.

This study aims to investigate the relationship between employee motivation and the financial performance of Lebanese SMEs. By examining data collected from 250 employees and managers, the research seeks to uncover how various motivational practices impact financial outcomes, such as productivity, profitability, and employee retention. The findings of this research will provide valuable insights for SME owners and managers, highlighting the importance of investing in employee motivation as a strategy for improving overall business performance.

### **1.1. Research Questions**

To guide this study, the following research questions are proposed:

- What is the relationship between employee motivation and financial performance in Lebanese SMEs?
- How do specific motivational factors (such as recognition, career development, and workplace environment) influence employee performance and, subsequently, the financial success of SMEs?
- What are the challenges faced by Lebanese SMEs in implementing effective motivational strategies?

### **1.2. Hypotheses**

Based on the literature, the following hypotheses will be tested in this study:

- H1: There is a significant positive relationship between employee motivation and the financial performance of Lebanese SMEs.
- H2: Specific motivational factors (recognition, career development, and workplace environment) significantly influence employee performance and financial outcomes.

## **2. Literature Review**

Employee motivation is a multifaceted concept that plays a crucial role in the productivity and performance of organizations, especially within small and medium-sized enterprises (SMEs). Theories of motivation, such as Maslow's Hierarchy of Needs and Herzberg's Two-Factor Theory, provide foundational insights into understanding how both intrinsic and extrinsic factors influence employee behavior. According to Maslow's theory, individuals are motivated by a series of hierarchical needs ranging from basic physiological necessities to the pursuit of self-actualization<sup>[6]</sup>. This model suggests that for employees to reach their full potential in a workplace, their lower-level needs must first be satisfied. Herzberg's Two-Factor Theory further expands on this by distinguishing between hygiene factors (such as salary and job security) and motivators (such as recognition and personal growth opportunities), emphasizing that true job satisfaction arises from intrinsic motivators rather than merely the absence of dissatisfaction<sup>[7]</sup>.

Research has consistently demonstrated that motivated employees are more productive, innovative, and committed to achieving organizational goals, leading to improved financial performance. Locke and Latham's (2002) Goal-Setting Theory highlights that specific, challenging goals paired with feedback significantly enhance employee motivation and performance. This theory is particularly relevant in the context of SMEs, where the alignment of employee goals with organizational objectives can directly impact productivity and profitability<sup>[9]</sup>. Similarly, Deci and Ryan's (2000) Self-Determination Theory posits that intrinsic motivation, driven by autonomy, competence, and relatedness, plays a pivotal role in fostering employee engagement and creativity, both of which are essential for SMEs striving to compete in dynamic markets<sup>[10]</sup>.

The literature suggests that the unique environment of SMEs can both support and hinder employee motivation. SMEs often provide a close-knit work environment that fosters direct communication, collaboration, and a sense of belonging, which can be powerful motivators for employees<sup>[11]</sup>. However, these businesses may also face challenges in offering structured career advancement opportunities and competitive financial rewards, which can limit long-term employee satisfaction and retention<sup>[12]</sup>. For SMEs in Lebanon, these challenges are compounded by external factors such as economic instability, currency fluctuations, and a constrained access

to financial resources, making it difficult for employers to invest in robust motivational strategies<sup>[13]</sup>.

Motivational strategies in SMEs often extend beyond financial incentives to include non-monetary rewards like recognition, career development opportunities, and the creation of a supportive work environment. Studies have shown that non-financial rewards play a significant role in driving job satisfaction and organizational commitment, particularly in contexts where budgetary constraints limit the ability to offer substantial financial bonuses<sup>[14]</sup>. For example, recognition of achievements, both big and small, has been linked to higher levels of employee engagement and lower turnover rates, reinforcing the value of acknowledging employees' contributions to the company's success<sup>[15]</sup>.

In the context of Lebanese SMEs, motivational practices must be tailored to address both the intrinsic and extrinsic needs of employees. Given the socio-economic challenges in Lebanon, such as high inflation and political instability, SMEs must adopt flexible motivational approaches that not only enhance job satisfaction but also contribute to the overall resilience of the workforce<sup>[16]</sup>. Graham and D'Aunno argue that during times of economic uncertainty, maintaining a motivated workforce can be a crucial factor in sustaining business operations and achieving financial stability<sup>[17]</sup>. Therefore, the focus on enhancing both financial and non-financial aspects of motivation could be the key to driving improved performance and competitive advantage for SMEs in Lebanon<sup>[18]</sup>.

Empirical studies have consistently shown that there is a positive correlation between employee motivation and organizational performance. When employees feel valued and are provided with growth opportunities, their productivity increases, leading to greater profitability and overall business success<sup>[19]</sup>. This relationship is particularly significant in SMEs, where each employee's contribution can have a substantial impact on the company's financial outcomes. As SMEs in Lebanon strive to navigate a challenging economic landscape, understanding and leveraging the principles of motivation could be pivotal in fostering a resilient and high-performing workforce<sup>[20]</sup>.

### **3. Methodology**

The methodology was designed to thoroughly investigate the relationship between employee motivation and the financial performance of small and medium-sized enterprises (SMEs) in Lebanon. To achieve this objective, the research employed a quantitative approach, which is particularly suited to examining measurable variables and establishing correlations between them.

Data were collected from a carefully selected sample of 250 SME owners and managers from various sectors across Lebanon. A stratified random sampling technique was used to ensure that the sample represented diverse industries, including retail, manufacturing, services, and others. This approach was chosen to capture a comprehensive view of the motivational practices and challenges across different types of businesses, making the findings more generalizable to the broader SME population.

The primary tool for data collection was a structured questionnaire, developed based on well-established theories of motivation such as Maslow's Hierarchy of Needs and Herzberg's Two-Factor Theory<sup>[6][7]</sup>, as well as insights from contemporary motivational frameworks like Deci and Ryan's Self-Determination Theory<sup>[10]</sup>. The questionnaire was divided into several sections, focusing on employee motivation factors, financial performance indicators, and demographic information. Questions were designed to elicit responses on a five-point Likert scale, allowing for the measurement of attitudes and perceptions in a quantifiable manner. The choice of this scale was intended to facilitate the statistical analysis of the relationship between motivational factors and financial outcomes.

Before the full deployment of the questionnaire, a pilot study was conducted with a smaller group of 20 SME managers to test its clarity and relevance. Feedback from this pilot phase led to minor revisions that enhanced the precision and effectiveness of the questionnaire. This preliminary step was essential to ensure that the questions were not only clear but also accurately targeted the core elements of motivation and financial performance.

Data collection took place over a six-month period using a combination of online surveys and face-to-face interviews. This mixed-method approach was necessary due to varying levels of internet accessibility and familiarity with digital tools among the target respondents. Online surveys were distributed via business networks and professional associations, while in-person interviews were conducted to reach those who were less engaged with digital platforms. This dual approach ensured a higher response rate and greater inclusivity in the data collection process.

Upon gathering the data, statistical analysis was carried out using the Statistical Package for the Social Sciences (SPSS). Descriptive statistics were first utilized to provide a snapshot of the sample's characteristics and the overall trends in motivational practices within the SMEs. Following this, correlation and regression analyses were conducted to explore the strength and nature of the relationship between employee motivation and financial performance. The correlation analysis helped identify significant associations between variables such as recognition, career development opportunities, job satisfaction, and key financial metrics like profitability, productivity, and employee retention.

Regression analysis was particularly insightful in determining the predictive power of employee motivation on financial performance outcomes. Control variables, such as the size of the enterprise, years of operation, and industry type, were included in the analysis to account for any confounding factors that might influence the results. The findings from the regression model highlighted that motivation significantly influences financial performance, with specific emphasis on the impact of intrinsic motivators like personal growth and recognition over purely extrinsic factors like salary.

Ethical considerations were rigorously observed throughout the research process. All participants were informed about the purpose of the study and were assured of their confidentiality. Informed consent was obtained from each participant, ensuring that they were aware of their rights and the voluntary nature of their participation. Data were anonymized to protect the identity of the respondents and to maintain the integrity of the information gathered.

The methodology employed in this study was meticulously designed to ensure reliability and validity in measuring the effects of motivation on the financial performance of SMEs in Lebanon. By combining rigorous sampling techniques, robust data collection methods, and advanced statistical analyses, the research provides a comprehensive understanding of how motivational strategies can be leveraged to enhance business success in a challenging economic landscape. This approach not only adds depth to the existing literature on employee motivation but also offers practical implications for SME managers seeking to cultivate a motivated and high-performing workforce.

#### **4. Results and Discussion**

The analysis of the data collected from 250 SME owners and managers in Lebanon revealed a profound connection between employee motivation and financial performance. Utilizing SPSS for statistical analysis, the study first employed descriptive statistics to outline the baseline characteristics of the sample, revealing that a majority of respondents (62%) hold managerial roles for over five years in their respective organizations. This demographic insight is crucial as it provides context to understand the motivational dynamics at play within Lebanese SMEs.

When examining the correlation between employee motivation and various performance indicators, the Pearson correlation coefficient results indicated a strong positive relationship. Specifically, the correlation between overall employee motivation and productivity yielded a value of  $r = 0.68$  ( $p < 0.01$ ), signifying that higher motivation levels are significantly associated with increased productivity within these enterprises. This result supports the foundational motivational theories posited by Herzberg<sup>[7]</sup> and Locke and Latham<sup>[9]</sup>, which highlight the pivotal role of intrinsic motivators in driving workforce performance.



Further regression analysis reinforced the predictive power of employee motivation on key financial outcomes. The regression model, with financial performance as the dependent variable and motivational factors as independent variables, displayed a standardized beta coefficient of  $\beta = 0.52$  for intrinsic motivators like recognition and personal growth opportunities ( $p < 0.01$ ). This finding suggests that intrinsic motivators have a more substantial impact on performance compared to extrinsic factors like salary and job security, which had a lower but still significant coefficient of  $\beta = 0.34$ . This aligns with Maslow's Hierarchy of Needs, emphasizing that higher-level psychological needs drive greater engagement and productivity once basic needs are met<sup>[6]</sup>.

A deeper dive into the data also highlighted the role of specific motivational strategies in enhancing job satisfaction and reducing turnover rates among SME employees. The results showed that recognition and career development opportunities were consistently rated higher by employees in terms of their impact on motivation, with a mean score of 4.2 out of 5. This emphasis on recognition aligns with Herzberg's assertion that factors contributing to job satisfaction are distinct from those that prevent dissatisfaction<sup>[7]</sup>. The SPSS output revealed that organizations actively implementing these strategies observed a 20% higher retention rate compared to those that relied solely on financial incentives.

The study's findings on turnover intentions were further supported by logistic regression analysis, which identified that employees who reported high levels of motivation were significantly less likely to consider leaving their jobs (Odds Ratio = 0.45,  $p < 0.01$ ). This inverse relationship between motivation and turnover underscores the importance of fostering a work environment that prioritizes personal growth and professional development. For SMEs in Lebanon, where retaining skilled talent is often a challenge due to economic volatility and limited growth opportunities, these insights are crucial for devising effective human resource strategies<sup>[21]</sup>.

Interestingly, the analysis also revealed a nuanced view of extrinsic motivators like salary and benefits. While these factors were indeed important, their influence on long-term commitment was less pronounced compared to intrinsic rewards. The results suggested that although competitive salaries are necessary to attract talent, they do not significantly enhance engagement or performance unless complemented by intrinsic motivators. This finding aligns with contemporary studies that argue for a balanced approach to motivation, where both intrinsic and extrinsic factors are leveraged to drive sustainable performance<sup>[14]</sup>.

The discussion of these findings highlights several practical implications for SME managers in Lebanon. Given the economic constraints and limited resources typical of SMEs, investing in non-monetary incentives like career advancement, skill development, and employee recognition programs can yield substantial returns in terms of productivity and financial

performance<sup>[22][23][24]</sup>. These strategies not only enhance job satisfaction but also build a motivated workforce capable of driving innovation and maintaining a competitive edge in challenging markets.

Moreover, the study's insights suggest that fostering a culture of continuous feedback and recognition can significantly influence employee motivation. By creating a supportive environment that values contributions beyond mere financial rewards, SMEs can reduce turnover rates and enhance overall employee commitment<sup>[25]</sup>. This approach is particularly relevant in the Lebanese context, where economic instability often limits the ability to offer competitive financial packages<sup>[26]</sup>.

Overall, the results of this study underscore that a motivated workforce is not merely a desirable outcome but a strategic necessity for Lebanese SMEs seeking to enhance their financial performance. The statistical analysis clearly illustrates that intrinsic motivators like recognition, growth opportunities, and a positive work environment are more effective in driving long-term success than financial incentives alone. This reinforces the need for SME leaders to adopt a holistic approach to motivation, one that nurtures both the professional aspirations and personal fulfillment of their employees.

## **5. Conclusion**

This research has illuminated the critical role that employee motivation plays in enhancing the financial performance of small and medium-sized enterprises (SMEs) in Lebanon challenging economic environment. The study's hypotheses, which proposed that employee motivation positively impacts productivity, profitability, and employee retention, have been robustly supported by the empirical findings. The data clearly demonstrate that motivated employees are not only more productive but also contribute significantly to the financial health of their organizations.

The study's findings contribute to the existing body of knowledge by providing empirical evidence of the intricate relationship between employee motivation and financial performance in Lebanese SMEs. By quantifying this relationship, the research highlights the importance of motivational strategies in a market where SMEs face myriad challenges, such as political instability, economic uncertainty, and limited resources. The evidence presented reinforces the notion that investments in employee motivation can yield significant returns in terms of enhanced productivity and profitability, thereby providing a strong justification for SMEs to prioritize such initiatives.

While the study provides valuable insights, it is important to acknowledge its limitations. The research relied on self-reported data, which may be subject to biases such as overestimation of



motivation levels or financial performance metrics. Additionally, the cross-sectional design of the study limits the ability to establish causal relationships definitively. Future research could benefit from longitudinal studies that track the impact of specific motivational practices over time, as well as the integration of objective financial performance data.

Moreover, this research calls for a comprehensive understanding of the unique challenges faced by Lebanese SMEs in motivating their workforce. The external factors affecting employee motivation, such as economic instability and workplace culture, must be considered when designing motivational strategies. Policymakers, educators, and SME support organizations should collaborate to develop programs that enhance both employee motivation and financial performance, contributing to the overall stability and growth of the Lebanese economy.

In summary, this study underscores that motivating the workforce is not merely an organizational nicety; it is a strategic necessity for Lebanese SMEs aiming to thrive in an increasingly competitive and uncertain landscape. By fostering a culture that prioritizes employee motivation—through recognition, professional development, and supportive work environments—SMEs can not only enhance their financial performance but also build a more committed and resilient workforce. The findings advocate for actionable strategies that can empower SME leaders to leverage the full potential of their employees, ultimately contributing to sustainable business success in Lebanon.

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