**GRADUATE PROJECT**

**PAY CUTS IN LEBANESE FIRMS AND EMPLOYEES’ PERFORMANCE**

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**DEDICATIONS**

I would like to dedicate this project to my lovely family who always supports me in attaining my goals. They are my guide to success and my source of power, inspiration and will. I greatly appreciate their sacrifices to see me at high levels of education. They are the reason behind the person I have become today.

Second, I would like to dedicate this project to my husband, the love of my life. I am blessed to have his love, support and understanding. He encourages me on a regular basis and stand by my side and never leave me in my ups and downs. Thanks for him for bringing the best of me.

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**ABSTRACT**

Lebanon has faced an economic downturn recently that affected negatively all the firms. So they applied pay cuts to reduce some of their expenses. The aim of this research is to find the impact of pay cuts applied in Lebanese firms on their employees’ performance. And the main objectives are to find out the forms of pay cuts applied, the impact of this pay cut on employees’ motivation level, satisfaction level, and commitment level to their organization, to find out if this pay cut affected the average target/sale achieved and their absenteeism rate, and if these employees had turnover intentions.

Primary data were collected from employees working in Lebanese firms during the economic downturn through a questionnaire. The size of the sample was 110 respondents. The questionnaire was distributed through the social media: WhatsApp, Facebook, LinkedIn and Instagram applicatons.

The data collected were analyzed by SPSS software. The analysis of the findings showed that there were different forms of pay cuts, the majority of employees with pay cuts had a reduced average of target/sale per month and a turnover intention, that employee satisfaction level and pay cut are highly negatively correlated, employee motivation level and pay cut are moderately negatively correlated, and employee commitment level to their organization and pay cut are slightly negatively correlated.

As a conclusion, the results were statistically significant and findings showed that pay cuts applied in economic downturn in Lebanon does affect employee performance negatively. The limitations of the study were due to a pandemic disease that attacked the world recently, “Corona Virus”. Some recommendations are suggested for the managers to motivate their employees, satisfy them, and increase their commitment to reduce the impact of this pay cut on employees’ performance.

Table of Contents

[LIST OF TABLES 7](#_Toc39501875)

[LIST OF FIGURES 8](#_Toc39501876)

[CHAPTER 1: INTRODUCING THE GRADUATE PROJECT 9](#_Toc39501877)

[1. Introduction 9](#_Toc39501878)

[1.1. Research Question 10](#_Toc39501879)

[1.2. Research Aim and Objectives 10](#_Toc39501880)

[1.3. Overview of Performance and Factors affecting it 11](#_Toc39501881)

[1.4. Research Hypotheses 12](#_Toc39501882)

[1.5. Structure of the Graduate Project 12](#_Toc39501883)

[CHAPTER 2: LITERATURE REVIEW 14](#_Toc39501884)

[2. Overview 14](#_Toc39501885)

[2.1. Lebanese Economic Downturn 14](#_Toc39501886)

[2.2. Employees’ Performance 16](#_Toc39501887)

[2.3. Compensation System and Pay cuts 23](#_Toc39501888)

[2.4. Relationship between Compensation System and Employee Performance 24](#_Toc39501889)

[2.5. Summary of Literature Review 27](#_Toc39501890)

[CHAPTER 3: RESEARCH METHODOLOGY 30](#_Toc39501891)

[3.1 Research Philosophy 30](#_Toc39501892)

[3.2 Research Approach 31](#_Toc39501893)

[3.3 Research Strategy (Data Collection Method) 32](#_Toc39501894)

[3.4 Research Methodological Choice 33](#_Toc39501895)

[3.5 Time Horizon 34](#_Toc39501896)

[3.6 Techniques and/or Procedures for Data Analysis 35](#_Toc39501897)

[CHAPTER 4: FINDINGS AND ANALYSIS 37](#_Toc39501898)

[4.1. Introduction 37](#_Toc39501899)

[4.2. Findings (Descriptive Statistics) 37](#_Toc39501900)

[4.3. Analysis 41](#_Toc39501901)

[4.4. Summary of Findings and Analysis 48](#_Toc39501902)

[CHAPTER 5: CONCLUSION, LIMITATIONS, AND RECOMMENDATIONS 50](#_Toc39501903)

[5.1. Conclusion 50](#_Toc39501904)

[5.2. Limitations 51](#_Toc39501905)

[5.3. Recommendations 52](#_Toc39501906)

[REFERENCES 54](#_Toc39501907)

[Bibliography 54](#_Toc39501908)

[APPENDICES 56](#_Toc39501909)

[APPENDIX 1: QUESTIONNAIRES 57](#_Toc39501910)

# **LIST OF TABLES**

[Table 1 age of employees 39](#_Toc37961498)

[Table 2 working period with the organization 40](#_Toc37961499)

[Table 3 Range of Earned Salary 41](#_Toc37961500)

[Table 4 Form of Pay Cut 41](#_Toc37961501)

[Table 5 Linear Regression test between pay cut and employee satisfaction level 46](#_Toc37961502)

[Table 6 Linear Regression test between pay cut and employee motivation level 47](#_Toc37961503)

[Table 7 Linear Regression test between pay cut and employee commitment level 49](#_Toc37961504)

# **LIST OF FIGURES**

[Figure 1 Performance Pathway Model 20](#_Toc37852088)

[Figure 2 gender of the sample 40](#_Toc37852089)

[Figure 3 marital status of employees 40](#_Toc37852090)

[Figure 4 Presence of a Pay Cut 41](#_Toc37852091)

[Figure 5 Change in Average Target/ Sale achieved for employees who had pay cuts 42](#_Toc37852092)

[Figure 6 Change in Absenteeism Rate for employees who had pay cuts 42](#_Toc37852093)

[Figure 7 Turnover Intention of the employees who had a Pay Cut 43](#_Toc37852094)

# **CHAPTER 1: INTRODUCING THE GRADUATE PROJECT**

# **Introduction**

Lebanon has faced an economic downturn recently. This was due to the protest movement that occurred in October 2019 and due to the political problems that are present in Lebanon since ever. This downturn affected negatively all the small and large businesses in Lebanon. Lebanese firms had many losses due to their huge expenses and low or no income due to the closure of most of the country for a minimum of two months. Many firms had closed and many Lebanese people lost their jobs. For the remaining firms, they were struggling to survive. This was very difficult because they were obliged to reduce their expenses and losses by many unethical ways but considered legal. One way was firing some of their employees, and another one was by using pay cuts.

Pay cuts were salary reductions in many forms. Employees getting pay cuts didn’t complain because there was no other choice, either to get a pay cut and stay at work, or to refuse and stay at home. Prices were rising very high over very short intervals due to the rapid and non-constant change in the value of the Lebanese currency compared to the US dollar. There was a huge load on the Lebanese because their works were shut down, their salaries were reduced, and their necessities’ prices were in continuous increase.

When the protest movement was nearly over, Lebanese firms returned back to work normally but prices were still increasing and pay cuts were still applied. How an employee will react to this situation? Does his performance will be the same with this pay cut? What about his motivation to work, his satisfaction of his job, and his commitment to his organization?

# **Research Question**

Our main research question here is: “Do pay cuts applied in economic downturn in Lebanon affect employee performance?” This question is a correlational/predictive research question. This means that we are testing for an existing relationship between pay cuts and employees’ performance.

There would be also sub-questions that will give us more insights about this topic. These questions are the following:

1. What are the forms of pay cuts applied in Lebanese firms?
2. Does this pay cut affect the motivation level of the employee?
3. Does this pay cut affect the job satisfaction level of the employee?
4. Does this pay cut affect the commitment level of this employee to his organization?
5. Does the average target/ sale achieved has been affected by the pay cut?
6. Does the absenteeism rate has been affected by the pay cut?
7. Does the employee consider leaving the job if there is an alternative?

# **Research Aim and Objectives**

The aim of this research is to find the impact of pay cuts applied in Lebanese firms on their employees’ job performance.

And the main objectives of this research would be the following:

* To find out what are the form of pay cuts applied in the Lebanese firms.
* To find what is the impact of this pay cut on the motivation level of the employees, on their job satisfaction level, and on their commitment level to their organization.
* To find out if this pay cut affected the average target/sale achieved and the absenteeism rate
* To find out of these employees are considering leaving their jobs if alternatives exist.

# **Overview of Performance and Factors affecting it**

Managing Employees’ performance is a crucial task required from managers to achieve their organizational goals. So managers must have clear understanding of what is job performance and what factors will affect it. “Employee performance is defined as how an employee fulfills their job duties and executes their required tasks. It refers to the effectiveness, quality, and efficiency of their output” (Ciner, 2019).

According to Mitchell (1982), Job performance is viewed as a function of three factors and is expressed with the equation “Performance= Motivation x Ability x Environment” (Anon., n.d.). So from this equation we see that the three main factors influencing employee performance are motivation, ability, and environment.

Motivation is one of the forces that lead to performance (Anon., n.d.). “Motivation is defined as the desire to achieve a goal or a certain performance level, leading to goal-directed behavior” (Anon., n.d.). So motivation is very important for getting well performance. Simply, whenever employee motivation would be affected by any reason, his job performance would be affected too.

Ability is having the required KSAs to perform the job. “K” stands for knowledge, “S” for skills, and “A” for the attitude. Ability will not be our concern in this research, because it is considered as a constant variable supposing that employees have the adequate KSAs to do their jobs. So it will be important when we are comparing employees’ performance with respect to their abilities (KSAs). This is not the case.

“Finally, environmental factors such as having the resources, information, and support one needs to perform well are critical to determine performance” (Anon., n.d.). Environment is the work condition where employee is supposed to perform. work conditions is affected bu certain factors which are the following: pay, benefits, job security, job satisfaction and so on… what we care about here is the “pay” factor, when this pay undergoes change, mainly negative change (i.e. pay cut), it will probably affect employee performance negatively. Also when the satisfaction level of the employee is affected, his performance would be affected too.

Besides that, according to the federal regulations in USA, there is another equation for performance: “Performance = Capacity x Commitment” (Anon., 1978). “To achieve good performance, organizations and employees must have the capacity and the commitment to perform” (Anon., 1978). Capacity means having the competencies, resources, and opportunity to perform the job. While commitment means that an employee agrees to complete assigned work and meet or exceed specific standards of quality, quantity, and timeliness that add value to the organization and its results (Anon., 1978). This implies that the level of employee commitment to the job is a key determinant for his performance.

# **Research Hypotheses**

H0: There is no statistically significant correlation between pay cuts and employees’ performance.

H1: Pay cuts negatively affects employees’ performance.

# **Structure of the Graduate Project**

The project consists of 5 chapters. Chapter 1 is the introduction, where the topic of the research will be introduced, the research question, aim and objectives will be set, and then there is an overview over the link between performance and other studied variables (pay, motivation, satisfaction, and commitment) and finally there is the hypothesis of the research.

Chapter 2 is the literature review, where we state insights and results that previous studies and projects had found about our topic. It consists of 4 parts. The first part is about the economic downturn in Lebanon. Second, we will define employee performance, state factors affecting performance, say how to measure performance, and find the relation between performance and its indicators (satisfaction, motivation, and commitment). Third, we will define compensation system and go through its forms, define pay cuts and go through its types and state if it is legal. And forth is the articles and other literature sources that studies the relation between employee performance and pay cuts.

Chapter 3 is the research methodology. We will identify the research philosophy, research approach, research strategy, research methodological choice, time horizon, and techniques for data analysis. In the research strategy we will go briefly through the parts of the questionnaire that was filled by the employees that faced pay cuts in their organizations.

Chapter 4 is the findings and analysis. We will present the results of the study as tables and graphs, these were extracted from the SPSS software that was used to analyze the data obtained by the questionnaire, and then these findings are analyzed.

Finally is Chapter 5, which is the conclusion. It consist of three parts. The first one is the conclusion where the research question will be answered and the objectives of the research will be met, and also what this research implies in the future studies. The second part is the limitations where the problems faced during the research process will be mentioned beside what would affect the extent of the generalization of the findings of this research. The last part is the recommendations, where best course of actions are suggested to reduce the extent of the negative effect of the pay cut applied in the Lebanese firms on the employees’ performance.

# **CHAPTER 2: LITERATURE REVIEW**

# **Overview**

Employees are the main asset that an organization have. They contribute to the success and failure of the organizations’ work by performing their tasks. For that, organizations should continuously improve their employees’ performance to prosper and succeed in achieving their business goals. To do so, they should have clear understanding of what affects employee performance. Job performance is affected by many factors, some of are within the employee himself which are his satisfaction, motivation and commitment. But these inside factors are affected by outside factors like work conditions, and any change in the work conditions will affect their performance. Compensation is one of the outside factors that is correlated to job performance, and any change in the compensation system that would be perceived unfair would probably affect employee performance.

In economic crisis and recessions, firms face many losses that would danger their existence. So they tend go for cost reduction tactics to reduce their losses. Some of these tactics would be pay cuts. Logically that will affect employee motivation, satisfaction and commitment to work, and will affects their performance.

Many studies and theories have searched the effect of motivation, satisfaction, and commitment of employee on their job performance, the effect of compensation systems and reward management systems on employee motivation, satisfaction, commitment and performance. Besides that, there were many studies on the effect of pay cuts and wage reductions on employee motivation, satisfaction, commitment and performance.

# **Lebanese Economic Downturn**

Protest movement that started recently in Lebanon in October 2019, was driven by a collapsing economy. This collapse affected drastically all the Lebanese firms’ work. “Some companies warned there employees that they will pay half salaries before even the protest had begun, in exchange for reducing working hours” (Anon., 2019). Others just used the downsizing way to reduce some expenses by firing some of their employees. This downsizing was without even any notice, it was just receiving the salary at the end of the month with this bad news. Of course, this was an illegal action that urged the Ministry of Labor to intervene. Employees taking pay cuts didn’t even complain because they had fears of losing their jobs completely, especially during these circumstances where there is no other job opportunities. What happened will obviously affect employees’ performance negatively. The economic downturn faced by Lebanon recently was not because of the revolution only, but because of the political turmoil that was present many years ago and has worsen things more and more. “Banks have restricted access to dollars while prices have risen, sparking a greenback liquidity crisis” (Anon., 2019).

“Economic growth in Lebanon has been battered by repeated political deadlock in recent years, compounded by the 8-year-old war in neighboring Syria” (Anon., 2019). The heavy reliance of Lebanese economy on tourism and service sector was the main reason for the failure of the country to nourish again economically. “The World Bank projected negative growth of minus-0.2 percent in Lebanon for 2019, but now warns the recession could be even worse” (Anon., 2019). To avoid worsening the situation, a new Cabinet was urged to be formed to reduce Lebanese becoming more poor and poor, because “Around third of Lebanese people live in poverty” (Anon., 2019) according to the World Bank. And “unemployment rate is already above 30% for young people” (Anon., 2019), this percentage will increase definitely. “Thousands of companies are threatened with closure, and tens of thousands of employees and workers risk losing their jobs” (Anon., 2019). “The union of restaurant and bar owners has said 265 establishments have closed already, and that figure could balloon to 465 by the end of the year” (Anon., 2019).

Besides that Lebanese firms rely heavily on importing products and supplies from abroad, which is no longer applicable because of the change in the value of Lebanese pound to dollar. “The Lebanese pound is pegged at around LL1500 to the dollar, and both are used interchangeably in everyday transactions. But caps on dollar withdrawals have forced people to resort to moneychangers, sending the unofficial exchange rate soaring to more than LL2200.” (Anon., 2019). One thing will lead to another. As the employees are losing their jobs or are paid half salaries or getting pay cuts, they will be no more able to pay their debts, and the value of their debts will change because the exchange problem from Lebanese pounds to dollars and vice versa. To mention the perspective of employers, they fear from future continuing to pay fully their employees when there is no work, and fear of future closure. Moreover, “petrol station owners faced an open-ended strike because of losses caused by the plunging pound against the dollar” (Anon., 2019). All these events, led the Lebanese people to think seriously of leaving Lebanon and proposing to work outside, which will affect the Lebanese economy more and more.

# **Employees’ Performance**

Performance:

Employees are the main assets of all of what an organization can own, because these employees contributes individually to the success or failure of the organization in fulfilling its goals. So, for every organization to sustain its success and prosper more, it should continuously improve the performance of its employees. To do this, managers must have clear understanding of what factors will affect their employees’ performance. “Employee performance is defined as how an employee fulfills their job duties and executes their required tasks. It refers to the effectiveness, quality, and efficiency of their output” (Ciner, 2019).

How to measure performance:

To measure employee performance, different parameters and indicators will be used across different jobs and levels. However, there is a general way to asses’ employee performance. Some are the following:

1. Employee accomplishments in an average day, month, or quarter: it can be any target or sales set at the beginning of the year.
2. Efficiency in accomplishing what is required: resources and time needed to reach the target.
3. Quality of work: when comparing the employee’s work to that of his peers. “Does the employee contribute something unique to their role that brings the company added value?” (Ciner, 2019)
4. Trust: this can be addresses by the degree of authority provided by managers, do employees need to be managed closely? Are they able to make good decisions?
5. Advancement in their careers: can these employees grow with the company?

Goals of employees in their departments should be aligned with the strategic goals of the organization, so that each employee must know exactly what is expected form him. When there is a clear understanding of performance between employees and their managers, goals will be met easily.

How to improve performance:

Advancements in technology have changed many jobs and work procedures, which urged employees to change their work processes to be compatible with what is needed nowadays. This was a reason for looking for ways to improve performance or change it completely. Sometimes there is no change ever, and the actual performance level of the employees would be lower than the desired performance level. This can be due to other reasons, within the employee himself, or because of certain conditions in the environment work that is inhibiting the employee to do the desired performance. Whatever as the reason, employees should always look for ways to improve their performance to advance in their career and succeed in their work. Also, leaders or managers should know how to improve their employees’ performance to reach their strategic goals.

To improve performance, many ways can be utilized. The first way is to investigate the low performance level situation and understand the reason behind it. This can be done by gathering data and information about the whole situation and addressing the employee directly. Low performance could be due to lack of resources, or due to lack of knowledge and skills that requires certain training. It could be also due to other factors like feeling undervalued and mistreated. When the situation is clear, actions will be guided to address the right point and correct the underperformance issue. In other words, we can say **“Avoid assumptions about underperformance and find out what’s really going on”** (Ciner, 2019)**.**

**The second way in improving performance is to encourage clear and effective communication continuously between the employees and their managers. Employees should receive clear feedbacks continuously on their work progress, expectations and available resources. When this feedback is negative, it will create uncomfortable situation between the employees and managers, which make this task very challenging. Even though, “**it’s important to foster an environment of transparency and direct communication” (Ciner, 2019). This will provide the employees a clear direction on how to change their actions to improve their performance. To end it up, “**You can lay the foundation for employee performance improvement by clearly conveying feedback and expectations, and by fostering an environment of open communication”** (Ciner, 2019)**.**

**The third way in improving performance will be fostering a positive work environment. According to Lia Ciner** (Ciner, 2019) **“happier employees perform better”. This will occur when the employees have the motivation to do their job.**

**The forth way, would be training. Usually, orientation and trainings are provided for the new employees to start their job. But that should not be the only training given. “**Ongoing training is a critical part of keeping employees engaged and motivated to think and work in new ways” (Ciner, 2019). This is especially important when there is a change in work processes that requires continuous training to stay up to date. So, “**Ongoing training allows employees to develop their skills and improve their performances”** (Ciner, 2019)**.**

**All the previous mentioned ways and other utilized ways to improve employees’ performance will empower employees and motivate them to achieve their goals, grow in their career and succeed in their profession.**

**Factors affecting job performance:**

**Employee performance is affected by certain key factors. This can be studied by “the performance pathway model”. “**The performance pathway begins with the individual, moves outward over a timeline and ends with a measurable outcome” (Tom E. Jones, 2019).

(Tom E. Jones, 2019)

Figure 1 Performance Pathway Model

The first part of this model is the “individual”. When studying the individual section, we end up with eight essential factors that will affect the employee’s performance. These factors are the following: knowledge, experience, skills, abilities, awareness, values, motives and needs (Tom E. Jones, 2019).

The second part is the job demands, which are the conditions under which the employee is expected to perform his job. “Job demands define work in terms of past, present and future expectations” (Tom E. Jones, 2019). Beside the job demands, we have training and development. According to (Tom E. Jones, 2019), training is the upgrades and improvements done for the job performance on the short run, while development is the career growth on the long run.

The third part would be “behaviors”. Behaviors are the actions taken by employees in response to the work environment (job demands with training and development), and these actions are observable whether they are functional or dysfunctional (Tom E. Jones, 2019).

The outcome of the interaction between the individual himself, with the job demands, the training and development, and the behavior would be the “Performance” (Tom E. Jones, 2019). When this performance is measured, and shows low, mangers and leaders can target the specific areas for improvement by using this model. They can set actions to correct this performance by addressing the factor affected it.

In the later sections we will focus on some factors within the employee himself (motivation, values and needs), and on a change in the work conditions (job demands). Then, we will see how these factors are affecting job performance.

Motivation and performance:

Motivation is the driving force that employees possess to attain their goals and objectives in their jobs. It is a reflection of the level of energy, commitment, and creativity that employees bring to their jobs (Shahzadi, et al., 2014). Organizations should always look for ways to motivate their employees so that they can make full use of their human resources (Shahzadi, et al., 2014). This will increase their productivity, reduce cost of operations, and improving overall efficiency (Shahzadi, et al., 2014). “According to a study conducted by Grant (2008), he established that motivated employees are more oriented towards autonomy and are more self-driven in contrast to less motivated employees, and that motivated employees are highly engaged and involved in their work and jobs and are more willing to take responsibilities” (Shahzadi, et al., 2014). Besides that, employee commitment with their work and jobs is more, if they are motivated as compared to less motivated employees (Shahzadi, et al., 2014). Employee performance is actually influenced by their motivation because if they were motivated they will exert more effort so that their performance will improve (Shahzadi, et al., 2014).

In the article, “*Impact of Employee Motivation on Employee Performance*”, the main purpose of the study was to inquire what factors influence employ motivation in Pakistan and to which extent motivation affects the employ performance (Shahzadi, et al., 2014). Data was collected from 160 teachers of Government and private schools by using self-administered questionnaire (Shahzadi, et al., 2014). The four studied variables were employee motivation, employee performance, intrinsic rewards and employee perceived training effectiveness (Shahzadi, et al., 2014). We will focus here more on motivation and performance. The results of this study showed that there is a positive relationship between employee motivation and employee performance, and that intrinsic rewards has a significant positive relationship with employee performance and employee motivation (Shahzadi, et al., 2014).

Job satisfaction and Employee Performance:

Job satisfaction is a positive emotional state that employee experience from the appraisal of his job (Dugguh, et al., 2014). Organizations can maximize their employees’ performance by motivating their employees and satisfying them to be psychologically balanced (Dugguh, et al., 2014). Dugguh (2014) says that satisfied employees are more committed to their organizations. Theories of job satisfaction such as “affective events, two-factor, equity and job characteristics “ indicated that a number of factors contributing to job satisfaction ( like achievement, recognition, responsibility, pay, work conditions and so on) have positive influence on employee performance (Dugguh, et al., 2014). Besides that, In the article of “Job satisfaction theories: Traceability to employee performance in organizations”, Stephen I. Dugguh, Ayaga and Dennis (2014) examined job satisfaction theories and studied how they affect employee performance in the organization with reference to the Nigerian business environment. The result of the study was that using appropriate variables and mechanisms contributing to job satisfaction can enhance employee performance by making them happy and better their well-being and the environment (Dugguh, et al., 2014). This requires understanding the factors that influence job satisfaction which are achievement, recognition, work itself, responsibility, opportunity for growth, pay, supervision, work conditions, company policies, interpersonal relationship, status, security and so on (Dugguh, et al., 2014). What we care about here is the pay factor which will contributes to the job satisfaction of the employee and thus affecting his performance.

Employee Commitment and Performance:

Organizational commitment refers to the psychological attachment of workers to their workplaces (Sutanto , 1999). “It is positively related to job satisfaction and motivation, and negatively related to absenteeism and turnover thus increasing an organization’s productivity” (Sutanto , 1999).

Committed employees contributes to the achievement of the organizational goals. They are considered as competitive advantage for organizations. “Workers who are committed to their organization are happy to be members of it, believe in it and feel good about the organization and what it stands for, and intend to do what is good for the organization” (Sutanto , 1999). The study of “The Relationship between Employee Commitment and Job Performance” found that there is positive and significant relationship between commitment to supervisors and performance. And according to their findings, managers can utilize employee commitment to boost job performance in workplaces (Sutanto , 1999).

# **Compensation System and Pay cuts**

“Compensation is a systematic approach to providing monetary value to employees in exchange for work performed” (Anon., 2015). It comes is different forms: Base Pay, Commissions, Overtime Pay, Bonuses, Profit Sharing, Merit Pay, Stock Options, Travel/Meal/Housing Allowance, and Benefits (like dental, insurance, medical, vacation, leaves, retirement, taxes...) (Anon., 2015).

Management uses compensation for a variety of purposes, and adjust it according to their business goals and available resource (Anon., 2015). They can use the compensation system to hire and retain the most right employees for their business, and to maintain or increase those employees’ satisfaction and morale and encourage their loyalty to company. Besides that, they use it as a tool to encourage maximum performance and reward it, and to reduce turnovers.

So from what was mentioned above, we can conclude that there is a link between employee satisfaction, their morale level, loyalty to company (employee commitment), and the compensation system. And because the satisfaction, loyalty to company, and morale level affects the job performance, there will be definitely a link between “job performance” and “compensation system”.

During economic downturns and recessions, companies tend to pursue cost-cutting tactics to reduce their losses. So they go for layoffs, hiring freezes, pay cuts and many other tactics (Potter, 2020). “A pay cut is a reduction in an employee's salary” (Doyle, 2019). They are often used as a strategy to reduce expenses during downturns in many firm. “A pay cut may be temporary or permanent, and may or may not come with a reduction in responsibilities” (Doyle, 2019). Pay cuts can be of different forms:

* elimination of a percentage of the basic salary
* elimination of certain benefits (medical benefits, travel and so on)
* elimination of bonuses (variable pay) and raises (merit raises and cost-of-living raises)
* And reduced hours (work fewer hours) and mandatory furloughs (taking unpaid vacations).

“Pay cuts are legal as long as they are not done discriminatorily (based on the employee’s race, gender, religion, and/or age. For a pay cut to be legal, a person’s earnings after the reduction must also be at least a [minimum wage](https://www.thebalancecareers.com/what-is-the-minimum-wage-2060628).” (Doyle, 2019)

# **Relationship between Compensation System and Employee Performance**

Based on what we found above, we concluded that job satisfaction, employee motivation, and commitment affects job performance. Also, we found that employee satisfaction, motivation, and commitment are as a result of many factors including the compensation system, and that any change in the compensation system (i.e. pay cuts in all its forms) will affect all of them. So logically there will be a relation between employee performance and compensation system. Let’s see that in the next part.

Güngör (2011) has researched in his article “*The Relationship between Reward Management System and Employee Performance with the Mediating Role of Motivation: A Quantitative Study on Global Banks*”, the relationship between the reward management system applications and employee performance of 116 bank employees in 12 global banks in Istanbul, while studying the motivation as an intervening factor. The reward management system applications he studies was of two types: the financial/extrinsic reward (raise, bonuses and so on), and the non-financial/intrinsic rewards (promotions, responsibility, appreciation and praise, authority, recognition and others). He founded that Financial Rewards have positive effects on Employee Performance, and that both Extrinsic and Intrinsic Motivation have an impact on Employee Performance (Güngör, 2011).

In the article “*The Importance of Pay in Employee Motivation: Discrepancies between What People Say and What They Do*”, Sara L. Rynes, Barry Gerhart, and Kathleen A. Minette (2004) incorporated a table that contains major studies of behavioral responses to “pay” and other motivational interventions:

* “Guzzo, Jette, and Katzell (1985), Financial incentives had by far the largest effect on productivity of all interventions” (Rynes, et al., 2004)
* “Judiesch (1994). Meta-analysis found that individual pay incentives increased productivity by an average of 43.7%. Results were even larger (48.8%) when the sample was restricted to studies in real organizations (as opposed to laboratory experiments)” (Rynes, et al., 2004)
* “Stajkovic and Luthans (1997). Meta-analysis found that incentive systems yielded productivity 1.36 standard deviations higher than in comparable groups without incentives in manufacturing firms (comparable figure in service firms was .42).” (Rynes, et al., 2004)
* “Jenkins, Mitra, Gupta, & Shaw (1998). Meta-analysis of relationships between financial incentives and performance quantity and quality. Found an average correlation of .32 between incentives and quantity of production, but no reliable relationship between incentives and product quality.” (Rynes, et al., 2004)

In the study of “*The moderating effect of employee involvement practices on the relationship between pay reduction and work attitudes*”, Wang, W. & Seifert, R. (2017) explored the main effect of employees who had pay reduction (nominal wage cuts or freeze with positive inflation rate) compared with those who experienced nominal pay rises during the recent recession on their job satisfaction and organizational commitment in the 2008 financial crisis in UK, and examined the moderating effect of employee involvement practices on that relationship. Their results were “that compared with those had nominal pay rises during the recession, employees who had pay cuts or freeze (with 5% inflation rate), are significantly and negatively associated with their job satisfaction and organizational commitment even when controlling for important variables, such as perception of job insecurity and the degree of adverse impact caused by recession on the organization studied. That is to say, facing the same perception of job loss, those who experienced pay reduction are significantly unhappier and less committed than those who had pay rises.” (Wang, W & Seifert, R, 2017)

Stavros A. Drakopoulos and Katerina Grimani (2015) tested the effect of pay cuts on the psychological well-being and job satisfaction of employees in European countries during the economic recession, and found that pay cuts have a negative statistical significant impact on job satisfaction. (Drakopoulos & Grimani, 2015). And because adequate performance is related to employees’ satisfaction and many other psychological factors, this indicates that pay cuts will affect job performance.

Sebastian Kube, Michel André Maréchal and Clemens Puppe (2010), in their article “*Do Wage Cuts Damage Work Morale? Evidence from a Natural Field Experiment*” found that wage cuts have a severe impact on employee productivity, and that this negative effect remains large and significant over the course of the entire working period (Sebastian Kube, 2010).

# **Summary of Literature Review**

To sum up what we found based on the aforementioned literature, Lebanese economy is suffering from a downturn recently due to the protest movement that started in October 2019, and due to the political turmoil since many years ago. This drastically affected all the Lebanese firms’ work, which was obliged either to provide their employees half salaries, or to fire some of them, in order to reduce their losses and expenses. Employees didn’t even complain because they had fears of losing their jobs completely, but that obviously affected their performance negatively.

Employees are the main assets of organizations, and contributes to the success/ failure of them. So, organizations should continuously improve their employees’ performance. “Employee performance is defined as how an employee fulfills their job duties and executes their required tasks. It refers to the effectiveness, quality, and efficiency of their output” (Ciner, 2019).

Some ways to measure employee performance are the following: Employee accomplishments in an average day, month, or quarter, Efficiency in accomplishing what is required, Quality of work, Trust provided to employees, and Advancement in their careers. When there is a clear understanding of performance between employees and their managers, goals will be met easily.

Many ways can be utilized to improve performance: investigate the low performance situation and understand the reason behind it, **encourage clear and effective communication continuously between the employees and their managers, fostering a positive work environment to increase employee motivation, and training to**[develop their skills](https://blog.walkme.com/employee-development-plan/)**and improve their performances.**

**Employee performance is affected by certain key factors according to “the performance pathway model”.** The factors are in the “individual” himself, in “Job demands”, Training and Development, and Employee behaviors. The outcome of the interaction between the individual himself, with the job demands, the training and development, and the behavior would be the “Performance” (Tom E. Jones, 2019). The focus will be on some factors within the employee himself (motivation, satisfaction, and commitment), and on a change in the work conditions (pay cuts).

Motivation is the driving force that employees possess to attain their goals and objectives in their jobs. It is a reflection of the level of energy, commitment, and creativity that employees bring to their jobs (Shahzadi, et al., 2014). Employee performance is actually influenced by their motivation because if they were motivated they will exert more effort so that their performance will improve (Shahzadi, et al., 2014).

Job satisfaction is a positive emotional state that employee experience from the appraisal of his job (Dugguh, et al., 2014). Organizations can maximize their employees’ performance by motivating their employees and satisfying them to be psychologically balanced (Dugguh, et al., 2014). Theories of job satisfaction indicated that factors contributing to job satisfaction have positive influence on employee performance (Dugguh, et al., 2014).

Organizational commitment refers to the psychological attachment of workers to their workplaces (Sutanto , 1999). “It is positively related to job satisfaction and motivation, and negatively related to absenteeism and turnover thus increasing an organization’s productivity” (Sutanto , 1999). “There is positive and significant relationship between commitment to supervisors and performance, and managers can utilize employee commitment to boost job performance in workplaces” (Sutanto , 1999).

“Compensation is a systematic approach to providing monetary value to employees in exchange for work performed” (Anon., 2015). It has different forms and Management uses it for different purposes. Because job satisfaction, loyalty to company, and morale level affects the job performance, there will be definitely a link between “job performance” and “compensation system”.

 “A pay cut is a reduction in an employee's salary” (Doyle, 2019). They are often used as a strategy to reduce expenses during downturns in many firm. Pay cuts has many forms: elimination of a percentage of the basic salary, elimination of benefits, elimination of bonuses and raises, and reduced hours and mandatory furloughs. “Pay cuts are legal as long as they are not done discriminatorily (based on the employee’s race, gender, religion, and/or age. To be legal, a person’s earnings after the pay cut must also be at least [minimum wage](https://www.thebalancecareers.com/what-is-the-minimum-wage-2060628).” (Doyle, 2019)

Güngör (2011) found that Financial Rewards have positive effects on Employee Performance, and that both Extrinsic and Intrinsic Motivation have an impact on Employee Performance (Güngör, 2011). Judiesch (1994) found that individual pay incentives increased productivity by an average of 43.7%, “Jenkins, and Mitra, Gupta, & Shaw (1998) found an average correlation of .32 between incentives and quantity of production. Wang, W. & Seifert, R. (2017) concluded that facing the same perception of job loss, employees who experienced pay reduction are significantly unhappier and less committed than those who had pay rises. Stavros A. Drakopoulos and Katerina Grimani (2015) found that pay cuts have a negative statistical significant impact on job satisfaction. Sebastian Kube, Michel André Maréchal and Clemens Puppe (2010) found that wage cuts have a severe impact on employee productivity.

# **CHAPTER 3: RESEARCH METHODOLOGY**

# **Research Philosophy**

The term Research philosophy refers to a system of beliefs and assumptions about the development of knowledge (SAUNDERS, et al., 2015). In other words, during the exploration process for knowledge, scientists had certain beliefs and assume some hypothesizes to get what they want, this is a research philosophy. There are five major philosophies in business and management that underpins any research. These philosophies are the following: Positivism, Interpretivism, Critical Realism, Pragmatism and Post Modernism. How can we choose the right philosophy for our research? Each philosophy is identified by the research question of the project, and the aim and objectives of it. In this project, a questionnaire will be used to collect the required data, so this research would be pure quantitative. And when the research is quantitative, the research philosophy would most probably be “Positivism”.

Positivism relates to the philosophical stance of the natural scientist and entails working with an observable social reality to produce law-like generalizations (SAUNDERS, et al., 2015). This philosophy generates a hypothesis, as we are doing here in this project. This hypothesis should be tested and proved, the end result will provide an explanation that can be measured against existing knowledge. So when we prove our hypothesis, we will end up with an explanation that can be compared with the results of the previous researches that had tested the same hypothesis.

To apply this here, we generated the hypothesis that states that the pay cuts done in Lebanese firms recently in this economic downturn, negatively affects employees’ performance. Our aim is to test this hypothesis by using a questionnaire where we ask questions related to employee performance (motivation, satisfaction, commitment, target achieved, considering leaving the job) and to pay cuts. This questionnaire will be distributed via social media to employees’ working in firms already underwent pay cuts, and other firms that didn’t undergo pay cuts. In this way we can compare both types of employees and find the effect of pay cuts on employees’ performance. The end result of this research will be analyzed and then compared to the results of previous researches that studied also the effects of all forms of pay cuts on employees’ performance, motivation, satisfaction and commitment to their jobs.

# **Research Approach**

When conducting a research paper, we must choose the appropriate research approach. There are three approaches for developing theory in researches. The first one is the “Deductive approach”, which occurs when the conclusion is derived logically from a set of premises (SAUNDERS, et al., 2015), the conclusion will be true if all the premises were true at the beginning. The second approach is the “Inductive approach”, where there is a gap in the logic argument between the conclusion and the premises observed (SAUNDERS, et al., 2015), the conclusion being judged to be supported by the observations made (SAUNDERS, et al., 2015). The third approach is the “abductive approach”, which begins with a ‘surprising fact’ being observed (SAUNDERS, et al., 2015). This surprising fact is the conclusion rather than a premise (SAUNDERS, et al., 2015). Based on this conclusion, a set of possible premises is determined that is considered sufficient or nearly sufficient to explain the conclusion (SAUNDERS, et al., 2015). Therefore, the three approaches differ in their logic, generalizability, use of data, and their theory development.

As mentioned in the previous section, the research philosophy applied is the Positivism, and what is applicable to positivism philosophy is the deductive approach. The logic of the Deductive approach is that when the premises are true, the conclusion is definitely true, and the generalization would go from general to specific. The collected data is used to evaluate the proposed hypothesis, and the conclusion is theory falsification or verification. So here we are starting from a general idea which is our hypothesis, if the employees’ performance will be negatively affected by the pay cuts applied in Lebanese firms recently in the economic downturn. We are going more specific and specific to generate more insights about the factors that determine this negative effect. And by testing this hypothesis through analyzing the results of our questionnaire, the result of the whole research will be either falsification or verification of the previous hypothesis.

# **Research Strategy (Data Collection Method)**

When it comes to the collection method of the primary data, there are many strategies to do that. The main eight strategies are the following:

* Experiment, where this method is used to study the relation between two variables, one is dependent variable and the other is independent. And in this case we manipulate the independent variable to study the effect of this change on the dependent variable.
* Survey, this method will be used in our research, so the discussion will be later.
* Case study, here one case is being studied in detail and in depth to get more close and specific insights about our topic.
* Archival research, in this method we get insights form observing previous records on our topic that are evidence-based.
* Ethnography, which is studying cultures and habits of certain people.
* Action research, mainly a method to diagnose certain problem and propose a solution.
* Grounded theory, that use the inductive approach because based on the data collected, a hypothesis is being proposed.
* And narrative inquiry, it’s the method of gathering data information first, and then narrate what was experienced during the collection process.

Some of these methods are quantitative, which means that they deal with variables that can be measured. Others are qualitative, which means that they deal with factors that cannot be measured. And in some cases we can see methods that can be both quantitative and qualitative (mixed). In this project, we will use the survey research strategy.

A Survey is defined as a research method used for collecting data from a pre-defined group of respondents to gain information and insights on various topics of interest (Bhat, 2020). It have different purposes and can be done in different ways based on the methodology chosen and the objectives to be achieved (Bhat, 2020). They usually use standardized procedures to obtain the required data. The purpose of these procedures is to ensure that each respondent is able to answer the questions at a level playing field to avoid biased opinions that could influence the outcome of the research or study (Bhat, 2020). A survey involves asking people for information through a questionnaire (Bhat, 2020). Questionnaires can be carried out by distributing it on papers. However, advanced technologies and the presence of the digital and social media facilitated the distribution of questionnaires to complete our researches.

The questionnaire of this project is created by Google forms. The questionnaire of this project is created by Google forms. Google Forms is a survey administration app that is included in the Google Drive office suite along with Google Docs, Google Sheets, and Google Slides (Anon., 2008). The questionnaire consists of three parts: Demographics, pay cut (independent variable), and employee performance (dependent variable). These parts are covered by thirteen questions that should be answered all. In demographic part, the data required are the following: age of the employee, his/her gender, his/her marital status, and how long he/she is being working in the organization. In the salary information part, data required are: range of salary earned per month, if the organization did a salary reduction (pay cut) in the previous six months, and the form of this pay cut: reduced number of working hours/days, reduction of percentage of the salary, elimination of benefit/bonus/raise, taking unpaid vacation and other option. And in the final part, the employee performance part, the required questions are: the employee’s satisfaction level, motivation level, and commitment level to the organization, if there is any change in the average target/sale achieved and absenteeism rate in the previous six months, and if the employee had a turnover intention (i.e. considering leaving the job in case of the presence of other alternative).

We will use probability sampling, which means that respondents are chosen randomly from our population. The characteristics of this sample is that a respondent is any employee working in a Lebanese organization before the economic downturn that occurred in Lebanon and still working up till now. The size of this sample is 110 respondents. The questionnaire will be distributed using the social media: via WhatsApp, Facebook, LinkedIn and Instagram applications through sharing the questionnaire link.

# **Research Methodological Choice**

Research methods are the strategies, processes or techniques utilized in the collection of data or evidence of analysis in order to uncover new information or create better understanding of a topic (guides, 2019). These methods are of different types and use different tools for data collection, which are the following: Quantitative research, qualitative research, and mixed methods research.

Quantitative Research gathers numerical data which can be ranked, measured or categorized through statistical analysis (guides, 2019). It is used to uncover relationships or patterns, and to make generalizations in certain topics. The questions asked in this type will be how many, how much, how often, or to what extent.

Qualitative Research gathers data about lived experiences, emotions or behaviors, and the meanings individuals attach to them (guides, 2019). It facilitates researchers’ understanding of complex concepts, social interactions or cultural phenomena. Questions asked here will start with how, why and what.

Mixed Methods Research would incorporate both the qualitative and the quantitative types. It provides a holistic approach combining and analyzing the statistical data with deeper contextualized insights (guides, 2019).

The methodological choice of our research will be based on the previous designs mention above. We will focus on the quantitative type because it is the design applied in this research. The methodological choices of quantitative research design are the following: Mono method quantitative (when one method is used to collect data), and the Multi method quantitative (when different methods are used to collect data). In our research the methodological choice is technically the mono method quantitative one, because we are using one method to collect the required data (questionnaire), and this method is considered as quantitative one because it deals with measurable variables.

# **Time Horizon**

There are two types of surveys based on the time they take to be completed: Cross-sectional research and longitudinal research. The first type, cross-sectional, is not intended to be repeated over time. However, the second type, longitudinal, should be repeated over time to measure the change that have occurred over specific period of time. In our project, the time horizon of our research would be cross-sectional because this study is not intended to be repeated over time. Time has no effect on the relationship between our variables. Testing the relation between Employee performance and pay cuts will not be affected by other factors as long as these factors are constant.

Cross-sectional study is defined as an observational research type that analyzes data of variables collected at one given point of time across a sample population (Bhat, 2020). It is also known as “transverse study”, and “prevalence study”. The questionnaire respondents in our sample should be similar in all variables, except the variable that we are studying which must stay constant throughout the whole study. This is unlike a longitudinal study, where variables in the study can change over the course of research (Bhat, 2020).

In our case, the constant variable will be any form of pay cut that is applied in the Lebanese firm in previous 6 months, whether it was a change in schedule (reduced working hours number per day, or reduced working days number per week), salary deduction, or the removal of certain benefits or bonuses or taking unpaid vacation. The variable under study would be the performance of employees working in these firms. This performance would be measured with certain indicators that will be presented in the questionnaire. These indicators are the following: employee satisfaction, employee motivation, commitment to organization, target/sale achieved, and absenteeism rate, and finally if considering leaving job in case of other opportunity is available.

# **Techniques and/or Procedures for Data Analysis**

The way data will be analyzed depends on the type of data collected. Data collected here are measurable and the methods used in collecting them are quantitative methods (questionnaire). Usually, the techniques and procedures for data analysis must be compatible with the type of data collected. So we should use a software that is compatible with our data.

Data analysis here will be done by SPSS (Statistical Package for the Social Sciences). The “SPSS® software platform offers advanced statistical analysis, a vast library of machine learning algorithms, text analysis, open source extensibility, integration with big data and seamless deployment into applications” (IBM, n.d.). This software is easy to use, flexible, and scalable. It can be accessed by users of all skill levels. And “it is suitable for projects of all sizes and levels of complexity. Besides that, it can help you and your organization find new opportunities, improve efficiency and minimize risk” (IBM, n.d.). SPSS software has many products, like SPSS Statistics and SPSS Modeler. We will use here the SPSS Statistics because this one supports the “top-down hypothesis testing approach”, where we can start from general (our hypothesis) to more specific insights (indicators measured in the questionnaire) to test the proposed hypothesis.

We will enter our variables and set them as numbers to quantify them. Then we will analyze these variables by calculating their frequencies. And we will also analyze the correlation between these variables by using correlation tests in the SPSS. By this analysis we can deduce the correlation between pay cuts and employees’ performance. The variables are expressed as set of questions in the questionnaire. Each question will ask about one variable to be analyzed in the SPSS. So because there are thirteen questions in the questionnaire, we will enter thirteen different variable in the SPSS document. The version used in this research is IBM SPSS Statistics 19.

# **CHAPTER 4: FINDINGS AND ANALYSIS**

# **Introduction**

After filling out the questionnaire by contacting the respondents through social media (Facebook, WhatsApp, Instagram, and LinkedIn), the data obtained were analyzed using SPSS software. In this section we will present two parts. The first part is the “Findings”, where we will present the tables and figures that show the end results we got from our study. The second part is the “Analysis”, where the stated tables and figures previously will be analyzed in this part. And the last part would be a summary of the important findings’ analysis that we have done.

# **Findings (Descriptive Statistics)**

After performing the descriptive statistics of the demographics of our sample, we got the following figures and tables.

|  |
| --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 18 to 25 | 32 | 29.1 | 29.1 | 29.1 |
| 26 to 35 | 66 | 60.0 | 60.0 | 89.1 |
| 36 to 45 | 12 | 10.9 | 10.9 | 100.0 |
| Total | 110 | 100.0 | 100.0 |  |

Table 1 age of employees



Figure 2 gender of the sample



Figure 3 marital status of employees

|  |
| --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 0-5 years | 81 | 73.6 | 73.6 | 73.6 |
| 5-10 years | 22 | 20.0 | 20.0 | 93.6 |
| more than 10 years | 7 | 6.4 | 6.4 | 100.0 |
| Total | 110 | 100.0 | 100.0 |  |

Table 2 working period with the organization

|  |
| --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | below 1000$ | 34 | 30.9 | 30.9 | 30.9 |
| 1000-2000$ | 64 | 58.2 | 58.2 | 89.1 |
| above 2000$ | 12 | 10.9 | 10.9 | 100.0 |
| Total | 110 | 100.0 | 100.0 |  |

Table 3 Range of Earned Salary



Figure 4 Presence of a Pay Cut

| **Form of reduction** |
| --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | reduced number of working hours/days | 12 | 10.9 | 21.8 | 21.8 |
| reduce % of salary | 26 | 23.6 | 47.3 | 69.1 |
| elimination of benefits/bonuses/raises | 7 | 6.4 | 12.7 | 81.8 |
| taking unpaid vacation | 5 | 4.5 | 9.1 | 90.9 |
| Other | 5 | 4.5 | 9.1 | 100.0 |
| Total | 55 | 50.0 | 100.0 |  |
| Missing | System | 55 | 50.0 |  |  |
| Total | 110 | 100.0 |  |  |

Table 4 Form of Pay Cut



Figure 5 Change in Average Target/ Sale achieved per month for employees who had pay cuts



Figure 6 Change in Absenteeism Rate in the previous 6 months for employees who had pay cuts



Figure 7 Turnover Intention of the employees who had a Pay Cut

# **Analysis**

Descriptive statistics done above is used to get a brief summary of our sample. The sample consists of 110 respondents. We will start first with the demographics of this sample. These points analyzes the above tables and figures.

* Table 1 shows us the age distribution of our sample. “Age” of employees is distributed over 3 ranges: 18 to 25 years (29%), 26 to 35 years (60%), and 36 to 45 years (11%). We can conclude that the majority of our sample is at mid ages (26 to 35 years old).
* Figure 2 presents the gender of the sample. It shows 46 males out of 110 respondent (around 42%) and 64 females out of 110 respondents (around 58%). So there is a diversity in the gender and the percentage of female gender is not too much greater than the male gender.
* Figure 3 shows the percentages of marital status of the sample, where we have 64% are single (70 respondents out of 110) and 36% are married (40 respondent out of 110). The majority of the sample are single.
* Table 2 shows the variation of duration of working among the respondents in their organizations. 74% of the sample (81 respondents) are working with their organizations for 0-5 years, 20% (22 respondents) are working with their organizations for 5-10 years, and 6% (7 respondents) are working with their organizations for more than 10 years. The majority of the sample are working with their organizations for 0-5 years.
* Table 3 shows the distribution of the sample over the range of salaries they earn per month. 31% of the sample (34 respondents) earn below 1000$, 58% (64 respondents) earn between 1000 and 2000$, and 11% (12 respondents) earn above 2000$. The majority of the sample earn between 1000 and 2000$ per month.
* Figure 4 shows that 50% (55 respondents) had a pay cut in their firms in the previous 6 months, and 50% also didn’t have a pay cut in the previous 6 months.
* Table 4 presents the forms of pay cuts that were done the Lebanese firms in the previous 6 months. As we mentioned in the previous point, 55 respondents got pay cuts. So from these 55 respondents, we have 12 had reduction in the numbers of working hours/days (around 22%), 26 had reduction in a percentage of their salary (around 47%), 7 had an elimination of benefits/bonuses/raises (13%), 5 took unpaid vacation (9%), and the remaining 5 respondents answered other option that was not specified (9%). So the majority of respondents got a reduction in a percentage of their salary.

The descriptive statistics for some performance indicators (target/sale achieved, absenteeism rate, turnover intention) will be presented below:

* As shown in figure 5, from the employees who had pay cuts: 4% had an increase in the average target/sale achieved in the previous 6 months, 69% had a decrease in the average target/sale achieved in the previous 6 months, and 27% had nearly the same average target/sale achieved in the previous 6 months. We see here that the majority of the employees who had pay cuts, had a decreased average target/sale achieved.
* From figure 6 we see that 31% of the employees who had pay cut had an increased absenteeism rate in the previous 6 months, 16% had a decreased absenteeism rate in the previous 6 months, and 51% had nearly the same absenteeism rate in the previous 6 months. So the majority of the employees who had pay cut didn’t have a change in their absenteeism rate.
* And in figure 7 we can observe the turnover intentions of the employees who had pay cut in the previous 6 months. 18% of the employees who had pay cuts did not consider leaving the job in case of another alternative, while 82% did consider leaving the job. This indicates that the majority of the employees that had a pay cut had an intention to leave the job if another alternative is present.

This part will analyze the test done to study the correlation between pay cut and performance predictors (satisfaction level, motivation level, and commitment level of the employees). We used simple linear regression. The results will be presented in the following tables.

Table 5 Linear Regression test between pay cut and employee satisfaction level

| **Variables Entered/Removed** |
| --- |
| Model | Variables Entered | Variables Removed | Method |
| 1 | Pay cut | . | Enter |
| a. All requested variables entered.b. Dependent Variable: satisfaction level |
| Model Summary |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .714a | .509 | .505 | .892 |
| a. Predictors: (Constant), pay cut |
| ANOVA |
| Model | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 89.100 | 1 | 89.100 | 112.083 | .000a |
| Residual | 85.855 | 108 | .795 |  |  |
| Total | 174.955 | 109 |  |  |  |
| a. Predictors: (Constant), pay cutb. Dependent Variable: satisfaction level |

| **Coefficients** |
| --- |
| Model | Unstandardized Coefficients | Standardized Coefficients | t | Sig. | 95.0% Confidence Interval for B |
| B | Std. Error | Beta | Lower Bound | Upper Bound |
| 1 | (Constant) | 3.764 | .120 |  | 31.305 | .000 | 3.525 | 4.002 |
| Pay cut | -1.800 | .170 | -.714 | -10.587 | .000 | -2.137 | -1.463 |
| a. Dependent Variable: satisfaction level |

Table 5 presents the simple linear regression test results of the two variables: pay cut and satisfaction level of employee. The independent variable is the pay cut, and the dependent variable is the employee satisfaction level. From the third table “ANOVA”, we see that ρ=0.000a less than 0.05 which indicates that the model is statistically significant at F=112.083 and ρ=0.000a.

From the second table “Model Summary”, we see that R, the simple correlation value, is 0.714 which indicates that there is a high degree of correlation between satisfaction level and pay cut. And from R square = 0.509, indicates that 50.9% of total variation in satisfaction level can be explained by pay cut.

In the fourth table we can see the slope and intercept of the straight line of the correlation between satisfaction level and pay cut. The slope is -1.8 and B= 3.706 and these two values are statistically significant because slope is between -2.137 and -1.463 and b is between 3.525 and 4.002 at 95% confident interval. The negative slope indicates that the correlation between the two variables is negative.

To sum up the first linear regression test result, pay cut and employee satisfaction level are highly negatively correlated.

Table 6 Linear Regression test between pay cut and employee motivation level

| **Variables Entered/Removed** |
| --- |
| Model | Variables Entered | Variables Removed | Method |
| 1 | Pay cut | . | Enter |
| a. All requested variables entered.b. Dependent Variable: motivation level

| **Model Summary** |
| --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .576a | .332 | .326 | 1.185 |
| a. Predictors: (Constant), pay cut |

 |
| ANOVA |
| Model | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 75.282 | 1 | 75.282 | 53.618 | .000a |
| Residual | 151.636 | 108 | 1.404 |  |  |
| Total | 226.918 | 109 |  |  |  |
| a. Predictors: (Constant), pay cutb. Dependent Variable: motivation level

| **Coefficientsa** |
| --- |
| Model | Unstandardized Coefficients | Standardized Coefficients | t | Sig. | 95.0% Confidence Interval for B |
| B | Std. Error | Beta | Lower Bound | Upper Bound |
| 1 | (Constant) | 3.800 | .160 |  | 23.783 | .000 | 3.483 | 4.117 |
| Pay cut | -1.655 | .226 | -.576 | -7.322 | .000 | -2.102 | -1.207 |
| a. Dependent Variable: motivation level |

 |
|  |

Table 6 presents the simple linear regression test results of the two variables: pay cut and motivation level of employee. Also here the independent variable is the pay cut, and the dependent variable is the employee motivation level. In “ANOVA” table, we see that ρ=0.000a less than 0.05 which indicates that the model is statistically significant at F=53.618 and ρ=0.000a.

 “Model Summary” table shows that R is equal to 0.576 which indicates that there is a moderate degree of correlation between motivation level and pay cut. And from R square = 0.332, indicates that 33.2% of total variation in motivation level can be explained by pay cut.

In the “coefficient” table the slope is -1.655 and B= 3.8 and these two values are statistically significant because slope is between -2.102 and -1.207 and B is between 3.483 and 4.117 at 95% confident interval. The negative slope indicates that the correlation between the two variables is negative.

To sum up the second linear regression test result, pay cut and employee motivation level are moderately negatively correlated.

Table 7 Linear Regression test between pay cut and employee commitment level

| **Variables Entered/Removed** |
| --- |
| Model | Variables Entered | Variables Removed | Method |
| 1 | Pay cut | . | Enter |
| a. All requested variables entered.b. Dependent Variable: commitment level |
| Model Summary |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .223a | .050 | .041 | 4.985 |
| a. Predictors: (Constant), pay cut |
| ANOVA |
| Model | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 139.782 | 1 | 139.782 | 5.625 | .019a |
| Residual | 2683.636 | 108 | 24.848 |  |  |
| Total | 2823.418 | 109 |  |  |  |
| a. Predictors: (Constant), pay cutb. Dependent Variable: commitment level |
| Coefficients |
| Model | Unstandardized Coefficients | Standardized Coefficients | t | Sig. | 95.0% Confidence Interval for B |
| B | Std. Error | Beta | Lower Bound | Upper Bound |
| 1 | (Constant) | 4.655 | .672 |  | 6.925 | .000 | 3.322 | 5.987 |
| Pay cut | -2.255 | .951 | -.223 | -2.372 | .019 | -4.139 | -.370 |
| a. Dependent Variable: commitment level |

Table 7 presents the simple linear regression test results of the two variables: pay cut and commitment level of employee. Pay cut is the independent variable and the employee motivation level is the dependent level. In “ANOVA” table, we see that ρ=0.019 isless than 0.05 which indicates that the model is statistically significant at F=5.625 and ρ=0.019.

 “Model Summary” table shows that R is equal to 0.223 which indicates that there is a slight degree of correlation between commitment level and pay cut. And from R square = 0.05, indicates that 5% of total variation in commitment level can be explained by pay cut.

In the “coefficient” table the slope is -2.255 and B= 4.655 and these two values are statistically significant because slope is between -4.139 and -0.37 and B is between 3.322 and 5.987 at 95% confident interval. The negative slope indicates that the correlation between the two variables is negative.

To sum up the third linear regression test result, pay cut and employee commitment level are slightly negatively correlated.

# **Summary of Findings and Analysis**

To sum up, we end up with the following findings:

* The majority of the sample (60%) is at mid age (26-35 years old)
* The sample is distributed by gender as the following: 42% males and 58% females
* The majority of the sample (74%) worked for 0-5 years in their organizations
* Salary earned was distributed over the ranges as the following: 58% (1000 to 2000$), 31% (below 1000$), and 11% (above 2000$)
* 50% of the sample had a pay cut in their organization
* The forms of pay cuts done in the Lebanese firms were the following: reduced number of working hours/days (22%), reduced a percentage of the salary (47%), elimination of a benefit/bonus/raise (13%), taking unpaid vacation (9%), and other form that is not specified (9%).
* 69% of the employees who had pay cuts in the previous 6 months had a reduced average of target/sale per month.
* 31% of the employees who had pay cuts had an increased rate of absenteeism, while 51% had nearly unchanged absenteeism rate in the previous 6 months.
* 82% of the employees who had pay cuts had a turnover intention if another alternative is present.
* Employee satisfaction level and pay cut are highly negatively correlated
* Employee motivation level and pay cut are moderately negatively correlated
* Employee commitment level to their organization and pay cut are slightly negatively correlated.

# **CHAPTER 5: CONCLUSION, LIMITATIONS, AND RECOMMENDATIONS**

# **Conclusion**

Employee performance is highly dependent on environmental factors faced by them in the organization. One of the most important factors is the compensation system that they take in exchange for their work. This system consist of the basic salary, in addition to the benefits, bonuses, raises and vacations that employee can get and earn every month. Any change, whether negative or positive, in these earnings will affect employee performance. And that was shown in the results of the study.

Our results were statistically significant because in all the regression tests’ results ρ was less than 0.05. So we can reject H0 and accept H1, our hypothesis which is “Pay cuts negatively affects employees’ performance”. So based on the findings of the study we can answer our research question by: pay cuts applied in economic downturn in Lebanon has affected employee performance negatively.

Besides that, the previous findings helped us meet our objectives. first, we can say that the forms of pay cuts done in the Lebanese firms were the following: reduced number of working hours/days (22%), reduced a percentage of the salary (47%), elimination of a benefit/bonus/raise (13%), taking unpaid vacation (9%), and other form that is not specified (9%). Second, this pay cut was highly negatively affected employee satisfaction level, moderately negatively affected employee motivation level, and slightly negatively affected employee commitment level to their organization. Third, 69% of the employees who had pay cuts had a reduced average of target/sale per month, 31% had an increased rate of absenteeism, and 82% had a turnover intention if another alternative is present.

The findings of this study were comparable to what was found in literature review. Based on the aforementioned literature, **employee performance is affected by certain key factors. S**ome factors within the employee himself are motivation, satisfaction, and commitment, and others are in the work conditions (compensation system). Employee performance is actually influenced by their motivation because if they were motivated they will exert more effort so that their performance will improve (Shahzadi, et al., 2014). Job satisfaction, loyalty to company, and morale level affects the job performance, so there will be definitely a link between “job performance” and “compensation system”. Previous studies showed that pay cuts have a negative statistical significant impact on job satisfaction and severe impact on employee productivity.

This research can open the door for other researches. In future studies, the effect of different forms of pay cut can be searched each alone to study its effect on the employee performance, and compare this effect to other pay cut forms. Also researchers can study employee preferences toward strategies that can reduce expenses during economic downturns other than pay cuts, and study the effect of these strategies on employee performance.

# **Limitations**

The limitations of this study are all due to the pandemic disease that we are facing nowadays. Corona virus is attacking the world now, it is highly contagious and easily spreadable and it can be lethal and cause death for many patients. To prevent this disease all the world underwent self-isolation and social distancing. This affected the research process and led to the following limitations:

* Social media was the medium via which the questionnaire was distributed. This has some disadvantages. Although this questionnaire was sent to specific people who had worked in Lebanese firms during the economic downturn, we cannot control who is completing the questionnaire. Also there is no control on how much each one can complete the questionnaire, so that maybe someone can fill it twice and affect the results of the study.
* The protest movement affected the Lebanese economic and was one cause of the economic downturn. And the corona virus stopped all the work and worsened the economic situation more and more. So the decrease in the average target/sale achieved per month in the previous 6 months may be not only due to the pay cut. The question is that how much this pay cut contributed to the decrease of the average target/sale achieved monthly.
* Because the sample was distributed via social media, the majority of the employees were at their mid age, it means they are restricted to certain range of age. What about employees above 45 years old? Do they have other opinions and suggestions?

# **Recommendations**

As we saw before, employees’ performance depends on factors that are in the employee himself, like his motivation to do his job, his satisfaction of his job, and his commitment to his organization. So during downturns the losses of the firms are huge, and managers should pay attention not to increase these losses by strategies that would affect their employees’ performance negatively. And when they are obliged to apply these strategies in difficult times, they should motivate their employees to do what is required from them, satisfy them or at least remove what may dissatisfy them, and increase their commitment to the organization they work to. This can be done by the following tips:

* Managers should involve employees in decision making. In this way, employees will be more responsible of the outcomes of these decisions and will be more motivated to perform their tasks.
* Be one team against the situation. Be unified and understand that this difficult time is affecting the whole organization, employees and managers, and they should work hand by hand to get out of this situation.
* Managers must praise their employees and recognize their contributions and hard workings in this crisis, this will motivate them. They can provide them nonfinancial rewarding that can relief their stress, like a certificate of “employee of the month”, or a new title without a raise. This will increase their self-confidence without adding more expenses on the firm.
* Employees should keep their doors open to their employees. They should listen to them and communicate with them, provide them with feedbacks and frequent assurance that everything is going to be ok.
* Dissatisfaction can be contagious. So managers can move dissatisfied employees to other places or other departments so that they will not affect the others.
* Managers should keep morale high during this situation by telling stories about what they are doing, and celebrate their wins even if they were small ones to help employees develop their self efficacy.

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# **APPENDICES**

# **APPENDIX 1: QUESTIONNAIRES**

**Pay cuts in Lebanese firms**

Dear helpers, I'm Israa Dayekh MBA student at LIU spilling down my thesis. Kindly participate in this survey and fill out the questions to help me complete my study concerning the effect of pay cuts on employee performance. Thanks for your time and support.

1. What is your age?
* 18-25
* 26-35
* 36-45
* 46 and above
1. What is your gender?
* Female
* Male
1. What is your marital status?
* Single
* Married
1. How long have you been working in your organization?
* 0-5 years
* 5-10 years
* More than 10 years
1. What is your salary range?
* Below 1000$
* 1000-2000$
* Above 2000$
1. Was your salary reduced in the previous 6 months?
* Yes
* No
1. What type of reduction your salary underwent?
* Reduced number of working hours/days
* Reduced percentage of your salary
* Elimination of benefits/bonuses/raises
* Taking unpaid vacation
* Other
* No reduction
1. I am satisfied with my job
* Strongly Agree
* Agree
* Neutral
* Disagree
* Strongly Disagree
1. I am motivated to perform my job
* Strongly Agree
* Agree
* Neutral
* Disagree
* Strongly Disagree
1. I am committed to my organization
* Strongly Agree
* Agree
* Neutral
* Disagree
* Strongly Disagree
1. My average monthly achieved target/sale has been... in the previous 6 months
* Increased
* Decreased
* Remained nearly the same
1. My absenteeism rate has been... in the previous 6 months
* Increased
* Decreased
* Remained nearly the same
1. I am thinking of leaving my current job if there is a new opportunity
* Yes
* No