

Lebanon's Financial Crisis And Workforce Vulnerability: A Study Of Arbitrary Employee Dismissals In Smes

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Abstract:

This research paper delves into the intricate dynamics surrounding Small and Medium-sized Enterprises (SMEs) in Lebanon and the profound impact of the Lebanese financial crisis on the frequency of arbitrary employee dismissals within these organizations. The study commences by establishing a robust theoretical foundation, meticulously exploring SME typologies, characteristics, strategic implications, and criteria for identification. Subsequently, it comprehensively defines the Lebanese financial crisis, elucidating its origins and multifaceted consequences. Furthermore, the paper unpacks the concept of arbitrary employee dismissals, underlining both the social and economic repercussions and offering potential remedies.

To address the central research inquiry, two fundamental hypotheses are introduced. The first hypothesis posits that the Lebanese financial crisis significantly amplifies the incidence of arbitrary employee dismissals within SMEs in Lebanon. Conversely, the second hypothesis conjectures that the crisis might potentially reduce such dismissals by fostering a heightened awareness among companies to preserve their skilled workforce.

The methodological underpinning of the study employs a deductive approach, accompanied by a quantitative research method. A structured questionnaire, featuring a Likert scale, is administered to 330 employees and managers within Lebanese SMEs operating in Lebanon. Data collected from this sample is subjected to rigorous analysis using the SPSS program, involving a battery of tests including correlation, regression, and one-way ANOVA.

The paper suggests several avenues for future research, encompassing the exploration of alternative research methodologies, expanding sample sizes for improved representativeness, diversifying the scope to encompass various industries and business types.

Practical implications stemming from this study offer critical recommendations. Stakeholders are encouraged to meticulously analyze economic factors contributing to arbitrary layoffs and engage in in-depth interviews and surveys with SME owners and affected workers. A cross-regional analysis is advocated to assess the varying impact of the crisis across different geographic locations in Lebanon. Proposals aimed at mitigating the negative consequences of arbitrary dismissals on employees and their families are of paramount importance. Given the rapidly evolving economic situation in Lebanon, continuous efforts to gather up-to-date data are underscored. Moreover, the organization of awareness sessions or workshops serves as a valuable platform to share research findings with local stakeholders and facilitate constructive dialogue on this pressing issue.

Key Word: *SMs, Lebanese financial crisis, Arbitrary dismissals, Employee layoffs, Lebanon, Economic impact, Economic instability, Economic crisis, Unemployment.*

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I. Introduction

The financial crisis that took root in Lebanon in 2019 and progressively deepened has yielded profound ramifications for the nation's economic landscape. As the economic situation in the country deteriorated, SMEs found themselves grappling with financial constraints of significant magnitude, compelling them to undertake stringent measures to ensure their viability¹. Of notable concern is the discernible surge in arbitrary terminations of employment contracts within SMEs situated in Lebanon. This type of unfair dismissal denotes a unilateral and often unjustified or illegal termination of indefinite-term employment contracts by employers, frequently transpiring without due regard for the fundamental rights of the affected employees².

The confluence of factors, including liquidity shortages, declining revenues, and escalating operational costs, has prompted many Lebanese companies to precipitously reduce their workforce³. In many cases, these staff reductions have transpired in violation of legal procedures and employee rights, thereby giving rise to concerns at both the economic and social levels. These dismissals have contributed to payroll challenges and delays in disbursing severance payments, intensifying discord between employers and employees. Compounding the predicament, arbitrarily dismissed workers have found themselves navigating a challenging labor market, further strained by the ongoing economic crisis. In light of these multifaceted challenges, this study seeks to

elucidate the implications of the financial crisis in Lebanon on arbitrary employee dismissals within SMEs located in the northern region of the country⁴.

Our study is supported by several key objectives. The primary aim is to comprehensively assess the extent of arbitrary workforce reductions in Lebanese SMEs following the onset of the financial crisis. This objective entails quantifying the number of employees affected by such dismissals and pinpointing the sectors that have been most heavily impacted. Additionally, the study endeavors to scrutinize the interplay of economic, legal, and social factors that have driven the escalation of arbitrary employee dismissals within SMEs in Lebanon, with the intent of uncovering the root causes of this emerging trend.

In framing the research question, we seek to address the central query: "How has the financial crisis in Lebanon influenced the frequency of arbitrary dismissals of employees in Lebanese SMEs?" To investigate this inquiry, we posit two competing hypotheses. The first posits that the Lebanese financial crisis has substantially exacerbated arbitrary dismissals of employees within SMEs. In contrast, the second hypothesis contends that the financial crisis, by prompting companies to value their skilled workforce, has led to a reduction in arbitrary dismissals among SME employees in Lebanon.

II. Literature Review

SMEs play a vital role in economies around the world. These enterprises serve as pivotal contributors to economic sectors by fostering job creation, innovation, and overall economic growth. Defined typically as businesses with fewer than 500 employees⁵ or those that are characterized by limitations on the number of employees and operational independence⁶, SMEs hold a prominent place in national economies due to their remarkable adaptability, market responsiveness, and innovation capabilities. It is imperative to distinguish between various categories of SMEs, such as local, exporting, global, and innovative SMEs⁷. Global SMEs stand out through their commitment to international operations, including exports and imports, international partnerships, and overseas establishments, guided by managers with an international vision and cross-cultural adaptability⁸. In contrast, innovative SMEs foster a culture of innovation, exhibit entrepreneurial acumen, and display adaptability to market dynamics, often emphasizing innovation over exporting⁹. Exporting SMEs, however, are characterized by their managers' relative inexperience, ingenuity, and limited developmental vision¹⁰, while local SMEs tend to focus inwardly, displaying less ambitious growth goals and lesser interest in innovation¹¹.

To distinguish SMEs, qualitative and quantitative criteria are employed, with qualitative aspects encompassing market share, financial autonomy, property ownership, and responsibility, and quantitative criteria including capital invested, turnover, added value, and the number of employees¹². SME characteristics encompass organizational structure, workforce, size, evolution, innovation, and susceptibility to uncertainty¹³. In Lebanon, SMEs are categorized based on the number of employees, with very small SMEs employing 1 to 4 individuals, small SMEs having 5 to 49 employees, and medium SMEs accommodating between 50 and 200 employees¹⁴. Despite their economic significance, SMEs grapple with challenges attributed to their size, limited resources, and market positioning, often necessitating strategies focused on competitiveness, development, or local economic support¹⁵.

The financial crisis in Lebanon, starting in 2019 and deepening in severity, has catalyzed a series of significant economic disruptions. It has resulted in a sharp depreciation of the Lebanese pound, exacerbated by the COVID-19 pandemic, political instability, liquidity shortages, and business closures. The crisis has left an indelible mark on the Lebanese economy, causing significant economic turmoil¹⁶. The financial crisis can be attributed to various factors, including excessive speculation, soaring debt levels, failures within the financial system, eroding confidence, external economic shocks, misguided monetary and fiscal policies, and financial complexity¹⁷.

The consequences of the Lebanese financial crisis have been multifaceted, encompassing economic recession, plummeting financial markets, corporate bankruptcies, household wealth losses, a banking crisis, restricted credit access, budget deficits, social and political instability, and international contagion¹⁸. This crisis has been exacerbated by a range of factors, including financial distress, sovereign debt, heavy reliance on imports, corruption, and poor governance¹⁹.

Arbitrary employee dismissals in Lebanon represent the unilateral termination of an employment contract by employers, driven by a variety of factors, including financial difficulties, restructuring, economic crises, technological changes, relocations, and cost-cutting measures. These dismissals can have far-reaching consequences, including increased unemployment, diminished domestic demand, decreased consumer and investor confidence, heightened worker insecurity and stress, and social tensions²⁰. Arbitrary dismissals also have a financial impact on businesses, entailing costs related to allowances, compensation, legal fees, recruitment and training, decreased productivity, loss of customers and contracts, effects on corporate culture, and management training expenses²¹.

In examining the tax and social implications of arbitrary dismissals, reductions in income taxes, VAT, indirect taxes, and social security contributions, alongside increased unemployment insurance spending and pressure on social services, come to the fore²². This critical review underscores the extensive ripple effects of arbitrary dismissals and the role of governments in mitigating the negative consequences by providing financial support to businesses, professional retraining programs, safeguarding workers' rights, extending credit facilities, offering hiring incentives, and implementing transparent communication and conflict resolution mechanisms²³.

III. Research Methodology

In this section, we outline the research methodology employed for this study, explaining the rationale behind our choices and detailing the methods and tools used in our investigation. We have adopted a deductive approach, which emphasizes the formulation of hypotheses to guide our research, the selection of variables, and the development of our analytical model. Furthermore, we have chosen to utilize a quantitative approach to ensure a rigorous analysis of the impact of the Lebanese financial crisis on arbitrary dismissals of employees within small and medium-sized enterprises (SMEs) in Lebanon.

Contextual Background:

The Lebanese financial crisis is characterized by a complex interplay of factors, including historical defaults, a shortage of foreign currency (particularly the US dollar), strict limitations on bank withdrawals, rising living costs, a sharp depreciation of the Lebanese pound on the parallel market, pervasive corruption, and political instability²⁴. Additionally, companies are grappling with fluctuating product purchasing costs due to the volatile exchange rate between the Lebanese pound and the US dollar in the black market, a consequence of this economic turmoil²⁵.

The policies of the Banque du Liban (BDL) have exacerbated the national debt burden, while arbitrary layoffs have exacerbated poverty levels and destabilized the nation's economic equilibrium. These factors have collectively eroded investor confidence and hindered economic growth, deepening the overarching financial crisis²⁶. The COVID-19 pandemic has further exacerbated these challenges, impacting both the population and businesses²⁷. For instance, companies have laid off foreign workers while hiring Lebanese employees at reduced wages²⁸.

This study posits two hypotheses:

1. The Lebanese financial crisis significantly increases arbitrary dismissals of employees within SMEs.
2. The Lebanese financial crisis reduces arbitrary dismissals of employees within SMEs due to companies' heightened awareness of the importance of preserving their skilled workforce.

The research revolves around various variables. Dependent variables related to the Lebanese financial crisis encompass factors such as deficient economic management, mounting debt, corruption, bad governance, and political instability. On the other hand, arbitrary dismissals of employees are influenced by variables such as financial pressures, declining demand, liquidity shortages, and company restructuring.

Independent variables for the Lebanese financial crisis include regional instability, the influx of Syrian refugees, heavy reliance on imports, and the decline in the tourism sector. Independent variables affecting arbitrary dismissals of employees involve general economic instability, competitive pressures, the impact of national or international crises, and fluctuating exchange rates.

Data Collection and Analysis:

We will employ a quantitative approach to collect data, focusing on the quantitative analysis of data through the use of questionnaires administered to a sample population consisting of managers and employees. The questionnaire, structured into three sections, encompasses demographic information, SME profiles, and the impact of the Lebanese financial crisis on arbitrary employee dismissals.

Following data collection using the quantitative method, statistical analysis will be conducted using the Statistical Package for the Social Sciences (SPSS) software. We will present demographic results in the form of statistical tables, based on responses from 330 employees and managers within Lebanese SMEs. This sample size exceeds the recommended threshold of 264 for a 95% confidence level and a 5% margin of error (as per Qualtrics' online sample size calculator)²⁹.

To assess the differences and characteristics between employees and managers, we will employ an Analysis of Variance (ANOVA) test. A p-value of less than 0.05 indicates the presence of significant differences, while a p-value greater than 0.05 suggests no statistically significant variation.

To explore the relationships between the variables in our study, a correlation test will be employed. This test allows us to determine the strength and nature of relationships (weak, moderate, strong, positive, or negative). We will consider the relationship statistically significant if the calculated alpha is less than 0.05.

For predicting the relationships between variables, a regression analysis will be conducted. This analysis helps determine the degree of influence (weak, moderate, strong, positive, or negative). Predictive relationships will be considered statistically significant if the alpha value is less than 0.05.

IV. Results Analysis and Discussion

In this section, we present the results of our research, offering insights into the characteristics of the surveyed population, small and medium-sized enterprises (SMEs), and the impact of the Lebanese financial crisis on arbitrary dismissals of employees in Lebanon. Additionally, we provide an analysis and discussion of these findings.

Characteristics of the Surveyed Population:

- **Gender Distribution:** The survey included 330 managers and employees from SMEs. Our analysis revealed that 70% of the respondents are women, while 30% are men, indicating a predominance of female respondents in the sample.
- **Age Distribution:** The data displayed a notable distribution of age groups. Approximately 55.45% of respondents fall within the age bracket of 20 to 29 years, with 23% between 30 and 39 years, 10% between 40 and 49 years, 8.48% under 20 years, and 3.07% aged 50 or above. This demonstrates that the majority of the population under study is comprised of young individuals, primarily between 20 and 29 years old.
- **Education Level:** The educational background of the respondents is diverse, with 50% holding a bachelor's degree, 30% possessing a Master's degree, 16.9% having completed their high school education (baccalaureate), and 3.4% holding a lower-level qualification (patent). The most prevalent educational level among the respondents is the bachelor's degree, constituting 50% of the sample.
- **Years of Experience:** The analysis of years of experience revealed that 36.36% of the respondents have 1 to 3 years of professional experience, while 31.81% have less than one year of experience. Furthermore, 21.81% have between 2 and 6 years of experience, and 10% possess over 10 years of experience, indicating a significant proportion of experienced individuals among the respondents.
- **Job Functions:** The majority of respondents (56.96%) reported working in fields other than the specific functions listed in the survey, such as nursing, environmental services, or catering. 23.03% work in administration and management, 13.03% in sales and marketing, and 6.9% in production and operations.
- **Current Working Conditions:** Analysis of working conditions indicated that 29.09% of respondents were dissatisfied with their work conditions, while 24.84% were very dissatisfied. Additionally, 23.93% reported being satisfied, 15.15% did not provide responses, and 6.96% were very satisfied. This suggests a notable level of dissatisfaction among employees and managers in SMEs.

Characteristics of Surveyed SMEs:

- **Distribution of Workforce:** Half of the surveyed SMEs (50%) have a workforce of fewer than 10 employees, while 30% have a workforce ranging from 10 to 50 employees, 14.84% employ between 51 and 100 workers, and 5.15% have more than 100 employees.
- **Age Distribution:** Regarding the age distribution of surveyed SMEs, 35.15% are between 1 and 5 years old, 25.15% are less than one year old, 25.15% are over 10 years old, and 14.51% fall within the age range of 6 to 10 years.
- **Sector of Activity:** SMEs surveyed operate in diverse sectors, including the commercial sector (36.06%), food sector (24.84%), technical sector (10.9%), health sector (18.78%), and industrial sector (9.39%). The commercial sector emerges as the most common among them, representing 36% of the sample.

Impact of the Lebanese Financial Crisis on SMEs:

- **Overall Impact:** The findings reveal that the Lebanese financial crisis has had a substantial impact on the majority of surveyed SMEs. Specifically, 43.03% of SMEs reported experiencing a high impact, 36.06% reported a moderate impact, 13.03% indicated a very high impact that could jeopardize their continued operation, and 7.87% reported a low impact.
- **Employee Layoffs:** Of the surveyed SMEs, 63.03% acknowledged having laid off employees in response to the Lebanese financial crisis, while 36.96% reported not resorting to layoffs.
- **Number of Employees Laid Off:** The distribution of the number of employees laid off varied among SMEs. Some companies laid off a significant percentage of their workforce, while others laid off a smaller proportion.
- **Reasons for Arbitrary Dismissals:** The most prevalent reason cited for employee layoffs was the increase in production costs (50%), followed by financial difficulties (43.03%), reduced demand (20.9%), and other unspecified causes (10%).

- Basis for Layoffs: The survey results indicate that 63.03% of SMEs based their layoffs on objective and performance criteria, while 36.96% relied on subjective and arbitrary criteria.
- Measures Taken: SMEs adopted various measures to mitigate layoffs, with 29.09% opting for the reduction of operational costs, 25.15% reorienting their business activities, 25.15% implementing other measures, and 20.6% reducing salaries and benefits.
- Reduction of Working Hours: A notable number of SMEs (66.96%) opted to reduce employees' working hours as an alternative to layoffs, with 30% strongly in favor of this approach.
- Impact of Poor Management: An overwhelming majority of respondents (72.72%) believe that poor management of SMEs is a significant factor contributing to layoffs.
- Perceived Future Outlook: Responses regarding the future outlook of surveyed SMEs varied, with 26.96% expressing neutrality, 25.15% pessimism, 22.72% optimism, 16.75% very optimism, and 9.39% very pessimism. This suggests a degree of uncertainty and pessimism about the future of these businesses.

These textual descriptions of the results provide an overview of the findings, serving as a foundation for the subsequent analysis and discussion of the study's outcomes.

Analysis of Conducted Tests

We undertake an analysis of the tests performed to assess the relationship between the variables in our study, specifically focusing on the Lebanese financial crisis and arbitrary dismissals of employees. The tests include reliability, correlation, simple regression, ANOVA, and regression coefficients.

Reliability Test:

The reliability test, measured using Cronbach's Alpha, aims to evaluate the consistency of the study's variables. The results indicate that both variables, the Lebanese financial crisis and arbitrary dismissals of employees, have alphas of 0.916 and 0.914, respectively. These values exceed the standard of 0.7, signifying high reliability. Consequently, these variables are accepted and considered valid for analysis.

Correlation Test:

The correlation test is employed to determine the relationship between the study's variables, particularly the relationship between the Lebanese financial crisis and the number of dismissals. Hypotheses H0 (absence of a significant relationship) and H1 (significant positive impact) were evaluated. The results reveal a strong positive correlation ($r = 0.671$) between the Lebanese financial crisis and the number of dismissals, with a calculated alpha less than 0.05. Thus, H0 is rejected in favor of H1, confirming that the financial crisis has a significant and positive impact on the number of dismissals.

Simple Regression Test:

The simple regression test is conducted to assess the degree of influence of the Lebanese financial crisis on the number of dismissals. Hypotheses H0 (absence of a significant relationship) and H1 (significant positive impact) were examined. The results demonstrate a strong positive correlation ($r = 0.671$) between the financial crisis and dismissals, with a regression coefficient of 0.450. This implies that the financial crisis explains 45.0% of the number of dismissals. ANOVA analysis further confirms the significance of the regression, as the F-value is 104.713 with an alpha less than 0.05. Thus, H0 is rejected, and H1 is accepted.

Regression Coefficients:

Lastly, the regression coefficients are scrutinized. The results show that the variables exert significant influence, as the Sig is less than 0.001, which is lower than 0.05. Additionally, the regression coefficient for the Lebanese financial crisis is positive (0.671), signifying that the financial crisis has a positive impact on arbitrary dismissals.

The conducted tests affirm that the Lebanese financial crisis has a significant and positive impact on the number of arbitrary employee dismissals. The studied variables are reliable and exhibit a strong correlation, bolstered by the results from the regression and ANOVA tests. This analysis underscores the necessity of implementing measures to mitigate the effects of the financial crisis on employment and arbitrary dismissals.

V. Conclusion

This research journey commenced with a comprehensive exploration of the theoretical foundations, starting with an in-depth understanding of Small and Medium-sized Enterprises (SMEs). We delved into the typologies, characteristics, strategic implications, and identification criteria associated with SMEs. The backdrop was set by defining the Lebanese financial crisis, examining its causes, and outlining its multifaceted effects.

Moreover, the concept of arbitrary employee dismissals was elucidated, emphasizing its social and economic ramifications, alongside suggested remedial measures.

The central inquiry of this study revolved around the impact of the financial crisis in Lebanon on the frequency of arbitrary employee dismissals within SMEs in Lebanon. Two hypotheses were formulated to address this research problem. The first postulated that the Lebanese financial crisis significantly increases arbitrary employee dismissals, while the second conjectured that it reduces such dismissals by compelling companies to be more conscientious in preserving their skilled workforce.

To investigate these hypotheses, a systematic research methodology was meticulously designed. The deductive approach was adopted, employing a quantitative research method facilitated by a structured questionnaire administered to 330 employees and managers in Lebanese SMEs. The data collected was of a quantitative nature and was subsequently analyzed using the SPSS program, supported by three main tests: correlation, regression, and one-way ANOVA.

In the quest to further advance our research, several avenues for future studies are envisaged. These include the exploration of alternative research methodologies, expanding the sample size to enhance representativeness, diversifying the scope to encompass various industries and business types for comparative analysis.

To enhance the quality and impact of our research, we propose a set of recommendations:

In-Depth Economic Analysis: Business leaders should conduct a comprehensive examination of economic factors contributing to arbitrary dismissals. This should include cost and revenue analysis, cash flow assessment, market demand analysis, scrutiny of government policies and regulations, exploration of alternatives to layoffs, and evaluation of relationships with business partners.

Mitigating Arbitrary Dismissals: Develop and recommend strategies to reduce arbitrary employee dismissals. Consider establishing strict criteria for layoffs, requiring employers to justify every dismissal decision, and promoting fair employment practices.

Psychosocial Impact Assessment: Investigate the psychological and social repercussions of employee dismissals on affected workers and their families. Design structured questionnaires to collect quantitative data on the psychosocial impact of layoffs, which can aid in formulating targeted support programs.

Continuous Data Collection: Ensure the collection of up-to-date and relevant data, as the economic situation in Lebanon is subject to rapid changes. Regular data updates will enable a more accurate understanding of the evolving crisis dynamics.

By implementing these recommendations, we can not only bolster the depth and breadth of our research but also contribute valuable insights to address the critical issue of arbitrary dismissals in the context of the Lebanese financial crisis.