



# New Challenges of Economic and Business Development – 2012

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## ASSESSING MOTIVATION FOR SMALL BUSINESS DEVELOPMENT

***Ināra Kantāne***

*Faculty of Economics and Management  
University of Latvia  
Aspazijas bulv. 5, Riga, LV-1050, Latvia  
E-mail: Inara.Kantane@lu.lv*

***Biruta Sloka***

*Faculty of Economics and Management  
University of Latvia  
Aspazijas bulv. 5, Riga, LV-1050, Latvia  
E-mail: Biruta.Sloka@lu.lv*

***Iļona Ozoliņa***

*Faculty of Economics and Management  
University of Latvia  
Aspazijas bulv. 5, Riga, LV-1050, Latvia  
E-mail: Iļona.Ozolina@lu.lv*

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### **Abstract**

Motivation has been studied in academic research as it is one of the key factors for business development. The motivated employees do work better with greater enjoyment they are creative show initiative and are loyal to enterprise. This article explores how the role of motivation in small business performance evaluate owners and managers, how employee motivation affect business.

Results of survey of 1464 entrepreneurs are used for data analysis, as well as performed structured interviews will be used to develop more detailed questionnaire for fundamental research of motivation impacts on small and medium size enterprises development. Research methods used: academic publications analysis, survey of entrepreneurs, structured interviews of entrepreneurs. For data processing used methods: descriptive statistics – indicators of central tendency or location and indicators of variability, correlation analysis, analysis of variance, factor analysis.

Researches results have indicated that external environment, motivated, educated employee, skilled manager, innovation management have significant impact on enterprises innovativeness. Still there were managers who didn't pay enough attention on employees motivation.

### **1. Introduction**

Small and medium size enterprises (SME) have a significant role in economy growth and employment in the Latvia. SME in Latvia in 2010 were 99.7% of all economically active statistical



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units [1]. It is important to establish factors that significantly influence existence and development of SME. In the light of the theoretical findings, it is important to study work motivation in SME. The aim of the study is to research how SME managers evaluate the role of motivation in their business and examine work motivation impact on business development. For empirical research it was approached entrepreneurs of SME: systematic sample was used – it means that for analysis it is possible to use methodology for random samples. The results of the survey of 729 entrepreneurs are used for data analysis (total number of complete questionnaires was 1464, only 729 respondents gave answers to all research questions), as well as performed structured interviews will be used to develop more detailed questionnaire for fundamental research of motivation impacts on small and medium size enterprises development. Research methods used: academic publications analysis, survey of entrepreneurs, structured interviews of entrepreneurs. For data processing used methods: descriptive statistics – indicators of central tendency or location and indicators of variability, correlation analysis, analysis of variance, factor analysis.

## 2. Theoretical Background

As there is great importance of SME contribution for national economies all around the globe, great attention to those problems are paid also in academic research where different aspects, including motivation for small business development are covered. Academic research results prove that an essential feature of any successful organization is motivated employees. Lundberg, Gudmundson and Anderson have researched, how two factor theory of work motivation influence workers and have discovered that the extent to which an employer is able to motivate employees is important for the overall success of the organization [2]. Managers can increase employee productivity and improve job satisfaction through effective motivation; one of the challenges of managers is know what incentives will stimulate them to perform [3]. There is a significant and positive relationship communication effectiveness and motivation [4]. Motivation does not guarantee high performance, but it is very unlikely that high performance will occur without motivation [5]. The research results in construction industry show that workers can be more innovative as well as creative if they are encouraged by their leaders and superiors. Motivated labour and workers can make changes in the industry and ameliorate it [6].

According to Euro Personals and Latvian Association of Personnel Management (LAPM) research “Employee engagement research, 2011”, 51.8% employee not completely involve to achieve organization objectives, employee assessed motivation in their work places on average by 4.3 points (in 1 – 6 point scale) [7].

There are lot of scientific researches that focuses on the outcome effects of employee involvement in organizations, argue that involvement of employees and managers is beneficial to organization outcomes but there are comparatively little researches how motivation influences SMEs outcomes in time of economic crisis.

Both motivation and communication are central to the idea that employee involvement produces higher satisfaction and productivity. The academic research has shown that need satisfaction play a central role in the process from autonomy support to work motivation and job performance. Manager's interpersonal orientations related to the satisfaction of three basic needs autonomy, competence, and relatedness were positively linked to work motivation and job performance. Thus when managers keep in mind the needs of their subordinates, they ought to be



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able to provide the conditions that will allow need satisfaction and lead to positive work outcomes. The study indicates that managers may need to be more autonomy supportive in their attempts to promote positive work-related outcomes like work motivation and job performance [8]. Autonomy orientation positively predicted self-determined work motivation, which in turn predicted job satisfaction and identification commitment [9]. The research results in Sweden and Russia provide support for the fact that national culture also plays an important role in determining what motivates people [10]. Research results of Liu, Combs, Ketchen and Ireland helped to develop main recommendations for managers seeking to enhance their firms' level of success were skilled investments in: human resource planning, compensation level, incentive compensation, training, internal promotion, employment security, participation, selectivity, grievance procedures, or flexitime [11]. The research results in Spain indicated that the personal characteristics of the owners, managers, the organization characteristics and the characteristics of the external environment were important factors of innovation in small business. Those small business owners, managers who were moved by a sound intrinsic motivation had a higher probability of introducing innovations. Education appeared as a key factor whose impact on innovation came through its effect on owners, manager's motivations and its influence on the management style of small businesses [12]. Many other factors influencing motivation for work are on research agenda for scientists around the globe.

### 3. Research Results and Discussion

The survey of SME owners, managers in Latvia was conducted in December 2010 – August 2011, 2700 entrepreneurs were approached, total number of complete questionnaires was 1464, but only 729 respondents gave answers to all research questions.

Table 1

**Statistical indicators of motivation in SME in Latvia in 2011**

	<b>Motivation</b>
Number of respondents	729
Mean	8.26
Std. Error of Mean	0.063
Median	8.00
Mode	8
Std. Deviation	1.692
Variance	2.863
Minimum	3
Maximum	10

Estimation scale 1 – 10 (where 1 – not significant, 10 – very significant)

Source: SME managers survey in December 2010 – August 2011 (n=729)



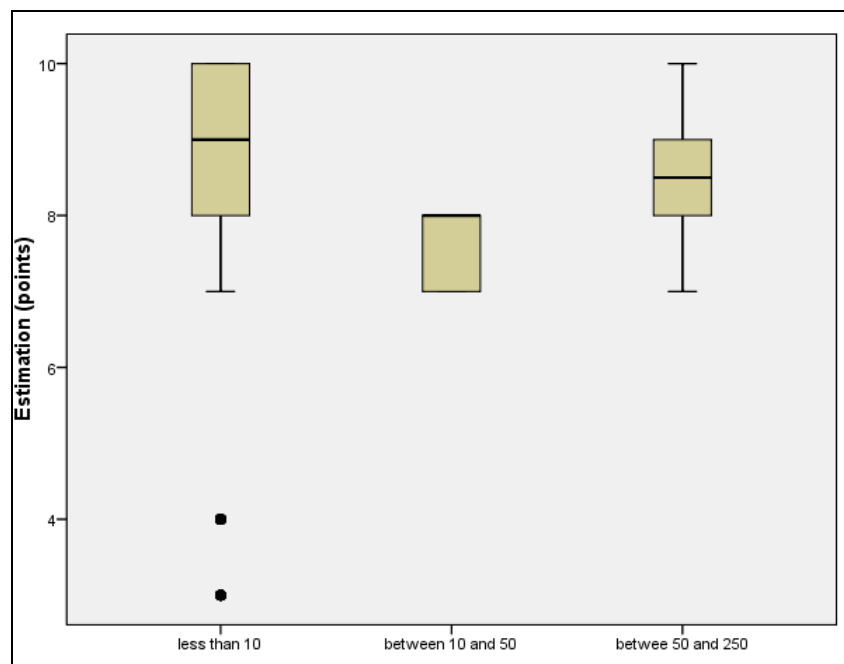
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Several questions related to employee motivation were asked. For evaluations of these questions scale 1 – 10 was used, where 1 – not significant; 10 – very significant. The research results proved that there were rather high evaluations for motivation in SME in Latvia. Arithmetic mean of motivation was 8.26, standard error of mean was 0.063 (in scale 1 – 10), most of the evaluations of SME managers were 8 (mode), 50% entrepreneurs evaluated motivation significance on company management with 8 and more points (median), evaluations were quite homogeneous – it is proved by indicators of variability: standard deviation was 1.692, coefficient of variability was 20.49% (see Table 1).

The results show that evaluations of motivation were high, maximum evaluation 10 points gave 25.9% respondents, 8 and more points 77.8% respondents, 3 point gave 3.7% respondents.

One-way ANOVA were conducted to investigate differences of motivation across the micro, small and medium sized enterprises. The results of the analyses provide support that there was a significant difference between micro, small and medium sized enterprises ( $F=12.369$ ,  $p<0.001$ ). Post hoc Bonferroni tests indicated that micro (Mean=8.23, Std. Error of Mean=0.119) and small (Mean=8.50, Std. Error of Mean=0.059) size enterprises owners, managers were significantly more motivated employees than medium (Mean=7.60, Std. Error of Mean=0.042) size enterprises owners, managers (see Figure 1.).



Estimation scale 1 – 10 (where 1 – not significant, 10 – very significant)

*Figure 1.* Employees motivation in micro, small and medium size enterprises with different number of employees (less than 10, between 10 and 49, between 50 and 250)

Source: SME owners, managers survey in December 2010 – August 2011 (n=729)



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Correlations are presented in Table 2. As it is proved in research in many other countries, also in Latvia motivation was significantly ( $p < 0.001$ ), positively correlated with communication, training and innovation. Between motivation and communication was the strongest correlation ( $R = 0.798$ ), between motivation and training correlation was strong ( $R = 0.633$ ), between motivation and innovation correlation was lower ( $R = 0.159$ ).

Table 2

### Correlations among motivation, communication, training and innovation

		Motivation	Communication	Training
1.	Motivation	-		
2.	Communication	0.798*	-	
3.	Training	0.633*	0.791*	-
4.	Innovation	0.159*	0.199*	0.276*

\* Correlation is significant at the 0.01 level (2-tailed).

Source: SME owners, managers survey in December 2010 – August 2011 (n=729)

Table 3

### Factor pattern matrix for complex factors which had impact on SME performance

	Factors			
	F1	F2	F3	F4
Innovation	-0.074	0.244	-0.114	0.737
Administrative procedures	0.931	0.075	0.102	0.114
Stability of external environment	0.853	0.326	-0.211	0.077
Financial resources	0.927	0.176	-0.097	0.158
Skilled worker	0.963	0.043	0.009	0.102
Tax policy	0.821	-0.159	0.351	-0.281
Training	0.015	0.863	0.112	0.234
Manager's business education	-0.267	0.208	0.652	-0.186
Manager's business experience	0.098	0.022	0.761	0.302
Manager's work experience in sector	0.164	0.425	0.762	-0.156
Manager's experience in employee management	0.270	0.439	0.648	0.440
Manager's experience at work with state institutions	0.214	0.088	0.133	0.792
Communication	0.108	0.906	0.265	0.027
Motivation	0.133	0.851	0.231	0.176
Use of Internet	0.209	0.635	-0.585	0.179

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. Rotation converged in 6 iterations. Estimation scale 1 – 10 (where 1 – not significant, 10 – very significant).

Source: SME managers survey in December 2010 – August 2011 (n=1464)



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In order to identify the complex factors which had significant impact on SME and to analysing the structure of the interrelationships among of variables we used factor analysis. The 15 initial factors were applied for Principal Component Analyses (innovation, administrative procedures, stability of external environment, financial resources, skilled worker, tax policy, training, owners, managers business education, business experience, work experience in economic sector, experience of employee management, experience at work with state institutions, communication, motivation, use of Internet). A Varimax rotation was applied and the factor matrix indicated that four complex factors have been found in 6 iterations (see Table 3).

The four complex factors were given the following names:

- 1) Factor 1: external environment impact (accounting 29.08% of the variance as revealed by the rotated sums of squares loadings). This factor holds administrative procedures, stability of external environment, financial resources, skilled worker, and tax policy.
- 2) Factor 2: motivated, educated employee (accounting 22.32% of the variance). This factor holds training, communication, motivation, use of Internet.
- 3) Factor 3: skilled manager (accounting 18.01% of the variance). This factor holds manager's business education, business experience, and work experience in economic sector.
- 4) Factor 4: innovation management (accounting 11.78% of the variance). This factor holds innovation and manager's experience at work with state institutions.

Those four complex factors external environment, motivated, educated employee, skilled owner, manager, innovation management were the factors which had significant impact on SME performance in Latvia in 2011.

The impact of the external environment factor was very significant for micro enterprises, 59.6% micro enterprise owners, managers evaluated its impact as very significant, but the lowest evaluation of the impact of external environment was for medium size enterprises, 23% medium size enterprise owners, managers evaluated external environment impact as very significant, 29.7% small enterprise owners, managers evaluated external environment impact as very significant (see Table 4.).

Table 4

### External environment factor's impact on micro, small and medium size enterprises performance in Latvia in 2011

Enterprises	External environment impact				Total
	Very weak	Weak	Significant	Very significant	
Micro	6.5%	12.0%	22.4%	59.6%	100.0%
Small	25.0%	20.3%	25.0%	29.7%	100.0%
Medium	33.0%	29.0%	50,0%	23.0%	100.0%

Estimation scale 1 – 10 (where 1 – not significant, 10 – very significant)

Source: SME owners, managers survey in December 2011 – August 2011 (n=1464)



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The impact of the motivated, educated employee factor was very significant for micro enterprises, 39.6% micro enterprises owners, managers evaluated its impact as very significant, the lowest impact of motivated, educated employee factor was for medium enterprises, only 23.3% medium enterprise owners, managers evaluated factor as very significant (see Table 5).

Table 5

### Motivated, educated employee factor's impact on micro, small and medium size enterprises performance

Enterprises	Motivated, educated employee impact				Total
	Very weak	Weak	Significant	Very significant	
Micro	10.0%	9.0%	41.4%	39.6%	100.0%
Small	25.0%	20.7%	31.0%	23.3%	100.0%
Medium	10.3%	24.0%	32.3%	33.4%	100.0%

Estimation scale 1 – 10 (where 1 – not significant, 10 – very significant)

Source: SME owners, managers survey in December 2011 – August 2011 (n=1464)

The impact of skilled manager factor was very significant for small enterprises, 48.8% small enterprise owners, managers evaluated its impact as very significant, the lowest impact was for medium enterprises, only 23.3% medium enterprise managers evaluated factor as very significant (see Table 6).

Table 6

### Skilled manager factor's impact on micro, small and medium size enterprises performance

Enterprises	Skilled owner, manager impact				Total
	Very weak	Weak	Significant	Very significant	
Micro	20.1%	30.8%	33.2%	15.9%	100.0%
Small	15.0%	10.7%	26.3%	48.8%	100.0%
Medium	13.0%	24.0%	27.4%	35.6%	100.0%

Estimation scale 1 – 10 (where 1 – not significant, 10 – very significant)

Source: SME managers survey in December 2011 – August 2011 (n=1464)

The evaluation of innovation management factor was quite similar for micro, small and medium size enterprises, about 27% managers evaluated this factor as very significant, 30% – as significant and 43% – as weak or very weak. Hence the authors may conclude that for micro enterprises very significant were such factors as business external environment, motivated, educated employees; for small enterprises very significant were external environment, skilled owner,





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manager; for medium enterprises very significant were motivated, educated employee, skilled owner, manager.

## 4. Conclusions

The motivated, job satisfied, skilled, involved in organizations employees are the essential feature of any successful organization, special importance it has for small and medium sized enterprises. Managers can increase employee productivity and improve job satisfaction through effective motivation. One of the challenges of managers is to know what incentives will stimulate employees.

The survey results show that external environment, motivated, educated employee, skilled owner, manager, innovation management are the main factors which have the significant impact on SME performance in Latvia. There are significant, positive and close relationships among motivation, communication and training in SME, but the relationships of motivation, communication and training with the innovation is weak. It can be explained with current economic situation in Latvia when for many enterprises financial resources for innovation have a shortage. The scientific research results have proved that employees can be more innovative as well as creative if they are motivated.

The results of variance analysis provided support for the existence of differences in employee's motivation of micro, small and medium size enterprises, micro and small size enterprises managers were significantly more motivating employees than medium size enterprises. The SME managers should increase effectiveness of employee motivation.

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