THE EFFECTS OF PERSONAL FINANCIAL DEBT ON EMPLOYEE JOB PERFORMANCE

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Abstract

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Managers want to maximize their employee productivity. One way to do this is to improve employee performance. This literature review explores whether an employee’s personal financial situation has an effect on their job performance. There is a significant amount of research showing that employees with poor financial situations do not perform as well as employees who do not have poor personal financial situations. The link between personal finance and job performance is the level of stress that a poor financial situations causes. Employees who experience high levels of stress from their personal financial situations are less productive at work because they are more focused on their personal financial problems. This literature review also looks at financial education programs that employers have put in place to improve their employee’s personal financial situations, thus increasing their employee’s performance at work. There is evidence to show that financial education programs do improve employee job performance. Therefore it is beneficial and rewarding for companies to implement financial education programs for their employees.
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### Table of Contents

Abstract ............................................................................................................................... ii  
Acknowledgements............................................................................................................ iii  
Introduction......................................................................................................................... 1  
  Research Question ........................................................................................................ 2  
Review of Literature ......................................................................................................... 3  
  Productivity .................................................................................................................. 3  
    Employee Personal Life ........................................................................................... 4  
    Financial Management – Personal Debt .............................................................. 5  
    Financial Stress Study ......................................................................................... 6  
Financial Education .......................................................................................................... 7  
  Financial Wellness Study ........................................................................................ 8  
Financial Wellness Program Costs ........................................................................... 12  
Benefit-Cost Analysis ..................................................................................................... 13  
  Promoting Financial Wellness Programs .............................................................. 16  
  Tips for Implementing Financial Wellness Programs ............................................ 16  
Conclusions ....................................................................................................................... 18  
  Recommendations for Further Study ................................................................. 19  
References ......................................................................................................................... 21
Introduction

Productivity in the workplace is affected by a variety of factors. Some factors that affect productivity are: poor health and the company leader’s attitudes. The one factor that this review will focus on is employees’ personal lives.

An employee’s personal life has an impact on how they perform at work. There are many factors in an employee’s personal life that affect how they perform at work, such as conflicts between work and home life and stressful events such as divorce or the death of a spouse. This review will focus on employee debt and how it affects their productivity at work.

Personal financial management and personal debt have an impact on people’s lives. Many factors affect people’s financial situations. Some of these factors include: making it difficult to secure a loan or causing anxiety and depression. A person’s financial situation affects their personal lives and their work lives. This review will focus on how personal financial management and debt affects people at work.

This review will also look at the effectiveness of financial education programs in the workplace and perform a cost-benefit analysis of these programs. The results of this cost-benefit analysis are significant to managers for determining whether it’s valuable to implement a financial education program in their own company.
Research Question

Does an employee’s personal financial situation have an effect on their job performance?

The basic proposition of this research is that an employees’ personal financial situation does have an impact on employee productivity. Research on causes of employee stress will be studied to determine if finances are a factor. Further research will be done to determine if personal financial burdens increase employee absenteeism. The last research point will be to find studies done on financial research education, to determine if this is beneficial to employees and employers in decreasing personal debt and increasing employee productivity.
Review of Literature

The purpose of this literature review is to examine the effects of personal debt on employee job performance and also to discover the most effective ways that have been found to educate employees about financial budgeting. The sections that this review will be covering are productivity, employee personal life, financial management – personal debt, a financial stress study, financial education and a financial wellness study. Ultimately, it is very valuable to managers that their employees are productive. It’s important to know if personal financial debt has an effect on productivity. It’s also important for employers to know if there is a solution to improving employee productivity through financial wellness programs.

Productivity

The Merriam-Webster dictionary defines productivity as: the rate at which goods are produced or work is completed. There are many factors that affect productivity in the workplace. Some of these factors are as follows. The behavior style of leaders is a factor. The attitude and the way leaders conduct themselves (Hacıtahiroğlu, 2012). An employee’s physical health also affects productivity in the workplace. Productivity is affected by modifiable health conditions and by chronic health conditions (Lenneman, Schwartz, Giuseffi, & Wang, 2011).
There are many factors that affect productivity. The factor that this review will focus on is employee personal financial stress. The following section will review the effects of an employee’s personal life on their productivity at work.

**Employee Personal Life**

An employee’s personal life has an impact on how they perform at work. There are many factors in an employee’s personal life that affect how they perform at work. According to Konrad (2000), conflicts between work and home life can lead to employee withdrawal and turnover. Employee withdrawal can lead to decreased effort at work, tardiness and absenteeism. Stressful life events, such as divorce or the death of a spouse also impact employee productivity. These events can be costly, take up a lot of time and be emotionally taxing (Andrews, 2005).

There are many parts of an employee’s personal life that can affect how they perform at work. This review will focus solely on employee debt and how it affects their productivity at work.

According to Pruter (2001), an employee’s financial wellness is a determinant of employer productivity. Employees who are financially well off in their personal lives are your best employees. Financially unwell employees waste at least twenty hours a month dealing with their personal financial issues, while they are at work. This author likens employees with poor personal financial situations to sharks that swim around the workplace and take bites out of the bottom line. Employees who are financially unwell in their personal finances are costly to employers (Quinn, 2000).
Financial Management – Personal Debt

Personal financial management and personal debt have an impact on people’s lives. This affects their personal lives and their work lives. Personal debt can directly affect whether a person can get a loan for their home, car or child’s education (Dean, Joo, Gudmunson, Fischer, & Lambert, 2013). Personal debt can even have effects that go as far as causing people to have anxiety and depression. Some people with a significant amount of debt that they are having trouble repaying experience thoughts of suicide (Meltzer, Bebbington, Brugha, Jenkins, McManus, & Dennis, 2011).

There are many ways that personal debt affect people’s lives. This following section will focus on how personal financial management and debt affects people at work, by affecting their absenteeism and productivity.

According to Dean et al. (2013), personal debt is not determined by race, sex or even income. People with higher levels of income have even higher debt, especially when it comes to automobile debt. This review is relevant to employees across all income levels. Personal financial debt is more the result of attitudes and behaviors than it is the result of not having enough money. The findings show that having debt leads to acquiring more debt.

The number one cause of stress for Americans is worrying about money (Prawitz & Cohart, 2014). Debt problems cause stress and anxiety that reduces employee productivity (Zimmerman, 2006). Gurchiek (2008) states that thirty million employees in the United States are financially distressed. Personal finance causes five times more concern than health issues. Stress results in lower employee productivity.
Financial Stress Study

Garman (1996) conducted a literature review by searching over 12,500 articles. Poor financial behaviors have a negative effect on people’s lives both at home and at work. Personal financial problems surface first in the workplace. Some of the costs that employers incur from employee’s poor financial behaviors: absenteeism, tardiness, fighting with other employees and managers, reduced employee productivity, lowered employee morale, loss of revenue from sales not made, accidents and increased risk taking, lack of employee focus on employer’s goals, thefts from employers and company use of time to deal with personal financial issues. As the number of poor financial choices increase, the consequences have an increasing negative effect at work.

According to Garman (1996), “Poor personal financial behaviors are often manifested as stress, which reduces employee productivity.” Absenteeism is one of the primary sources low employee productivity that is a result of stress. Employee stress from personal finances is a real issue that affects the workplace.

A survey was given to 301 employees of IDS Financial Services. The findings showed that the job performance of one-third of the workforce is affected by personal financial stress. Thirty-eight percent of the employees surveyed said that their job performance was affected by their worries about money.

Many employees with financial problems end up taking time off work to face their struggles. An example of this is when an employee takes company, when they could be productive, to talk with their co-workers or supervisors about their financial problems.
People with financial stress also take longer breaks at work to deal with their financial stress. Other employees call in sick to work to deal with their financial problems.

Absenteeism describes when employees don’t show up to work. There is also absenteeism, where the employee shows up to work, but mentally they are not available to do their job. Financially unwell employees are passive and not engaged at work (Gurchiek, 2008). When an employee is focused on their financial problems, they are not focused on their work. They may be able to still perform at some level, but they are not able to give 100%.

“Unscheduled absenteeism” costs companies about $700 a year for each employee. Some additional costs to unscheduled absenteeism include: lower morale from other employees who must pick up the extra work, lost revenue because of less sales, losing customers to other companies with a better reputation and better customer service. While not all absenteeism is due to financial stress, the cost of absenteeism is between $25 and $35 billion in the United States. This cost is from lost employee productivity. Other estimations say the cost is over $300 billion per year (Garman & et al., 1996).

Financial Education

Financial education programs are being implemented in the workplace to help people manage their personal finances and debt.

According to Shad (2001), an employee who is worried about their future finances will not perform well today. Personal financial health has an impact on physical health, mental health and job performance. In 1999, academics did a study for the
Association Financial Counseling and Planning Education (AFCPE). The study included 178 employees. The employees were asked questions about the financial health, physical health and their most recent job reviews from their bosses. The results were that employees who received better performance reviews also had better financial and physical health. There were measureable results from the study. 100 out of the 178 employees participated in a financial education program. There were measured to be much more confident than the 78 employees who did not participate in a financial education program. Both groups responded to the question, “I worry about how much money I owe.” The 100 employees, who participated in the financial education program, were less likely to be concerned about debt than the 78 who did not attend.

Another benefit that the 100 employees showed, is that after attending the financial education program, they were not only more confident, but also more proactive. This proactive mentality led to increased personal financial savings.

In the following section, a financial wellness study will be explored. This study explains the value of financial wellness programs.

**Financial Wellness Study**

This study, from Verne (2014), set goals for employers in 2015. In the recent past, companies have incorporated programs that increase the health of their employees. These programs include resources for healthy eating, exercise, and mental health. The reason company’s are investing in the health of their employees is because healthy employees are more productive, because they are happier. Healthy employees also cost their employers
less. The last aspect of health that companies are starting to focus on is the financial wellness of their employees. When financial stress is reduced in employees, both the company and the employee benefit.

Finances are at the root of people’s greatest stress in America. A large number of Americans make just enough money each month to pay their bills. Most Americans also have a large amount of debt but don’t possess the skills needed to make better financial decisions. These factors have a large impact on productivity. In order for companies to have happy, healthy and productive employees, financial wellness programs need to be part of the company’s benefits. Financial stress should be every company’s concern because it’s something that most American employees face.

One in three Americans have been late in paying their debts. It’s hard to get out of debt once you are in it. It becomes a vicious cycle. People don’t make the best decisions for themselves once they are in debt, and they usually get into debt worse. People who have more debt are more likely to have health problems. They also show more irritability, anger and fatigue. Financial stress is also connected with headaches, stomach pain, ulcers, sleeplessness, muscle tension and heart attacks. People with financial stress are also more likely to start behaviors that are not healthy for them. These unhealthy behaviors include: smoking, alcohol and drug abuse and weight gain.

These effects of financial stress have a negative impact on employee job performance. When employees experience high levels of stress, they are less motivated and less efficient at work. They are also less creative and they produce a lower quality of
work. Fifteen percent of American employees have a level of financial stress that directly decreases their productivity.

There is a link that researchers have found between financial stress and missing work. People who are stressed about their finances spend more time at work dealing with their finances. 24% of employees say that personal financial stress distracts them while they are at work. Of that 24%, 39% spend a minimum of 3 hours each week, either thinking about or facing their financial issues. Gallup reports that financial distractions cost $300 billion in lost productivity every year.

Financial stress has been found to have an impact on behavior and cognitive function. A book entitled Scarcity was released in 2013 by authors Sendil Mullainathan and Eldar Shafir, professors at Harvard and Princeton respectively. What they found is that people getting by with less than they need has significant effects. They say that scarcity reduces people’s self-control and prevents them from learning. The books also says that scarcity increases anger, impatience and also causes people to be impulsive, and make poor decisions which causes them to stay in a vicious cycle. The bottom line is that people with limited resources tend to make decisions that will ultimately be worse for them.

There was one experiment done, proving that an employee’s ability to work is affected more negatively by financial stress than by a lack of sleep. Basically, someone who is financially stressed performs much worse at work than someone who is sleep deprived. This case makes the conclusion that financial stress is bad for both employees and their employers. It states that financial education programs are very helpful in
helping employees reduce their level of financial stress and gain valuable tools for stay
debt free in the long term. This study says that the root cause of financial stress is
financial illiteracy. Low financial literacy leads to higher personal debt. This is what
financial education programs seek to address.

According to Baliga (1995), companies that implement programs to measure their
employees’ job performance had greater employee productivity. According to The
Impact of Performance Management on Organizational Success, a study was performed
that included 437 publicly traded companies. The respondents of the study included 58
different industries that had incomes ranging from one million to 65 million. They also
had a range of employees from 10 to 312,000. Two hundred and five companies
implemented programs that rewarded employee who increased their job performance.
This also improved the company’s finances. Two hundred thirty two of the companies
did not implement programs, showed lower company financial performance than their
counterparts. The study measured the following areas: profitability, cash flow, value of
stock and productivity. Profitability includes the return on assets, the profit margin and
the profits of each employee. The cash flow measures the real return on investment, along
with cash flow. Stock market performance is measured by the shareholder return and the
stock return based on the market index. The value of stock is the price to book value of
capital ratio. Finally, productivity is measured by examining the sales of each employee.

Managing performance involves managers and employees working together. They
set goals and measure their results based on their goals. Managers set expectations for
budgeting salaries and bonuses. Financial rewards are all based on financial performance.

The key aspects of successful programs are as follows:

1. The program is designed and put in place by senior management.
2. Increase employee involvement in the process.
4. Encourage coaching and feedback.
5. Programs should be custom designed to fit the needs of each individual company.

The results also encouraged collaboration between human resources and senior management when deciding on the objective of the performance program (Baliga, 1995).

**Financial Wellness Program Costs**

Financial Wellness programs can be offered in a variety of ways. There are free programs offered to employers through financial professionals (Sammer, 2012). Some of these free programs can be effective, while others are just sales pitches. It’s important to make sure you are going to be receiving financial education.

There are community programs through nonprofits, YMCAs and community colleges. There are also vendor programs that are usually eight to twelve weeks long, and they are offered either online or in the classroom.

The total cost of a financial wellness program can vary from $10,000 a year to $500,000 a year (Sammer, 2012). The size of the company is a factor, as well as the quality of the financial education.
**Benefit-Cost Analysis**

According to Sammer (2012), once a financial wellness program has been in place for a while, then the results of the program can be evaluated. A benefit-cost ratio is used to measure all the benefits and costs using dollars. For example, a 7:1 benefit-cost ratio says that there is a $7 return on every dollar that is invested in the education program. Time spent developing the program should also be factored into the cost. Another way to measure the financial return is through the Return on Investment (ROI). This is calculated using the benefits and costs in dollar form. The ROI is displayed as a percentage. A higher percentage is a better ROI. One thing to consider when measuring financial education programs is there is additional value that cannot be measured in dollars. One of the benefits that can be hard to measure is the increase in productivity (Pinkerton, 2004).

McLeod Health implemented a financial wellness program in 2008 (Sammer, 2012). Researchers from the Personal Finance Employee Education Foundation have studied the program at McLeod Health, and figured out the return of investment based on 470 employees who had completed the program. The return on investment was $6.60 for every dollar that was invested. The total return on investment from McLeod Health’s financial wellness program was $569,133. The areas of return were from improved job performance, reduced turnover, reduced absenteeism and reduced work time lost (Figure 1).
Figure 1. The total return on investment from McLeod Health’s financial wellness program was $569,133. The areas of return were from improved job performance, reduced turnover, reduced absenteeism and reduced work time lost (Sammer, 2012).

The two following sections include examples of financial wellness programs. These examples have been provided as a tool for managers looking to implement financial programs in their own companies. These examples give managers an idea of programs that are successful. Managers can take parts of successful programs and make modifications where they see fit, for their own companies. The first example is McLeod Health’s Program. The second example is Therm-O-Disc’s Program.
**McLeod Health’s Program**

McLeod Health’s program started off with meetings once a week, on a business day, for 2 hours (Sammer, 2012). The program lasted for 12 weeks. The program has adapted and changed many times. One change was making the classes on every other Saturday, and including the employee’s family and spouses. Another change was creating and online tutorial blended with a lunchtime class, for a 12-week period.

McLeod Health agrees to pay for the whole program, on the condition that the employee completes the entire program. The employee will incur all the program fees if they do not complete the program in its entirety. This deduction will be make from their wages and each employee agrees to this condition in a signed contract before the program begins.

McLeod offers these programs on a regular basis. There are about 5,100 employees in this organization, and more than 650 have participated in their financial wellness program.

**Therm-O-Disc’s Program**

Therm-O-Disc’s program is a 13-week course (Sammer, 2012). In an 18-month period, twenty percent of their 4,000 employees have gone through their financial wellness program. The result is that their average class pays off $10,000 in personal debt and save $1,000 on average for their emergency funds.

Employees highly recommend this program to their co-workers, so there is a waiting list in place to take these classes. Both salaried and hourly employees attend
these classes. A side benefit from these classes is that employees are building relationships and improving teamwork across departments that don’t normally interact.

**Promoting Financial Wellness Programs**

The best way to promote financial wellness programs is through manager and supervisor involvement (Sammer, 2012). This is because leaders are able to see when employees are struggling with personal finances. Managers and supervisors can make employees aware of financial wellness programs and even share their personal experiences from going through the program.

It’s easier to encourage employees to participate when the programs are offered at no cost to the employee. There are other ways to promote financial wellness programs, in addition to managers suggesting the programs to their employees. These include: information booths where employees can sign up for upcoming classes, putting success stories into company newsletters, and encouraging people who have been through the program to share how the program has helped them.

**Tips for Implementing Financial Wellness Programs**

There are ways for managers to make their resources go farther when investing in financial wellness programs for their company. The following are tips for getting a program started in your company.

1. Pay for the employees to complete the program, but only pay for the employees who complete the whole program.
2. Start with a small class and a small investment. Monitor interest in the program and increase the size of the program if there is interest.

3. Initially invest in just a small number of employees. Set a budget for what should be spent on the employees in the program, and choose a class size that will allow you to stay within your budget.

4. Target employees with the greatest need for financial education. This will allow employers to bring a good change to their employees’ lives.

5. Measure the impact of the financial wellness program in your company. Some metrics used by previous companies include: healthcare costs, rates of absenteeism and cost-benefit analysis.

These are just some of the helpful tips to consider when planning on implementing a financial wellness program in your company (Sammer, 2012).
Conclusions

This review concludes that personal financial stress decreases employee productivity. It is valuable for employers to offer financial education programs to their employees. These programs have a positive effect on employee’s personal finance management. Employees who participate in financial education programs save more money than employees who don’t participate. Better planning and an increase in savings causes reduced stress levels in employees.

Employers are seeing the value in having healthy employees, not just physically with medical coverage through benefits, but mentally with classes to educate employees on how to reduce debt. Financial wellness programs can be a competitive advantage. Reducing debt and managing finances well, allows employees’ to be more productive at work.

Examples of two successful financial education programs have been reviewed. A cost-benefit analysis has also been provided. This is what managers can use to determine the benefits of implementing a financial education program within their company.
Recommendations for Further Study

Further research is needed on the benefit-cost of financial education programs. It would be valuable to have hard numbers in order to determine the effectiveness of financial education programs and compare them to other programs. This would be beneficial when employers are choosing a program for their own company. They want to know which program is the most effective by seeing the financial benefits.

Additional research is needed to determine whether personal financial stress decreases creativity at work. There was a brief mention by Verne (2014), that financial stress causes employees to be less creative at work and produce a lower quality of work. Creativity enhances organizations and allows them to stay ahead of their competitors (Parjanen, 2012). According to Zhou & George (2003), creativity releases useful ideas and solutions. Creativity requires focus (Amabile, Hadley & Kramer, 2002). All of the findings about how creativity affects productivity are very brief. Additional studies are needed to measure creativity and determine its impact on productivity in the workplace.

Research is also needed to distinguish between stress from finances and stress from other factors. It is clear that stress affects job performance. However it would be beneficial to have more in-depth studies that show the effects of stress that is solely from personal finances.

Research is also needed to determine how important personal finances are to the employee being examined. Some employees are less burdened by financial stress than
others. It would be valuable to develop a measure of how much of an impact personal debt has on multiple subjects.

Another area that needs to be examined is the variety of financial education programs that have already been used. A comparative analysis of multiple financial education programs would be very valuable to employers to see what programs are the most successful in increasing employee productivity. This analysis would include the benefit-cost ratio or ROI on each financial program so that managers can determine how much of an impact each program has. Further research needs to be done to evaluate and assess financial education programs more closely. It’s important to know how each one is being set up and run.
References


