

## **CHAPTER I. INTRODUCTION AND STATEMENT OF THE PROBLEM**

### **Introduction**

Financial matters are related to all aspects of personal and family life. Researchers have investigated financial matters and their impacts on personal and family life for years. Financial concerns and family relationships (Conger, Elder, Lorenz, Conger, Simons, Whitbeck, Huck, & Melby, 1990; Elder, Conger, Foster, & Ardel, 1992; Thomasson & Lawrence, 1991), financial problems and substance abuse (Peirce, Frone, Russell, & Cooper, 1996), psychological aspects of financial hardships, and financial problems and stress (Bruner & Cooper, 1991; Sporakowski, 1979) are just a few examples of research topics in personal finance. Important areas of research are identification of the characteristics of financial problems and financial wellness, examination of financial difficulties of various groups, and development of financial management education.

Certainly, financial matters are one of the most important issues in our daily lives. They affect not only an individual's personal and family life, but also the person's work life. Research has shown the relationship between workplace productivity and poor financial behavior (Brown, 1979a; Garman, Leech, & Grable, 1996; Williams, Haldeman, & Cramer, 1996; Williams, Lown, Haldeman, Garman, Fletcher, & Cramer, 1990). According to Brown (1979a), employee financial problems are one of the four major problems in the workplace. Further, he reported that "10% is a very conservative estimate of the number of employees in the workplace with financial difficulties" (Brown, 1993a). Garman et al. (1996) also reported the negative impacts of poor financial behavior on families and employers. They estimated the number of employees in the workplace with financial problems at 15%. Williams, Lown, Haldeman, Garman, and Cramer (1995) discussed direct and indirect relationships between financial problems and workplace productivity. Workers who have financial difficulties may utilize more employer-sponsored fringe benefits and demand more wages. And in some instance the unrest in workplaces from financial worries does conflict with the execution of job responsibilities. Besides those direct relationships, indirect relationships arise from the financial stress. This stress impacts family and marriage

relationships and physical and mental health. Workplace productivity could also be affected (Williams et al., 1995).

Because of the negative impacts of personal financial difficulties on workplace productivity, researchers and educators have recommended workplace financial education (Atchley, 1998; Brown, 1979b; Garman, 1997a; Garman, 1997b; Luther, Garman, Leech, Griffitt, & Gilroy, 1997; “Management briefing,” 1998). Workplace financial education can work as a buffer for those who have financial difficulties. It can provide useful information to workers and help them eliminate causes of their decreased productivity. There are advantages of workplace financial education for both employees and employers (Fletcher, Beebout, & Mendenhall, 1997; Gorbach, 1997; Wagner, 1982; Wallace & Karlark, 1997). Helping troubled workers can improve productivity and reduce costs. Wallace and Karlark asserted that “an effective financial education program for workers will positively affect corporate earnings” (p.26). They provided three points as the evidence of the above thesis: effective financial education will increase corporate earnings by lowering absenteeism, increasing worker’s concentration on work through eliminating worker’s fears and financial insecurity, and increasing worker’s stress management skills. In addition, financial education helps employers avoid lawsuits, improve workers’ financial well-being, and remove limits on tax-deferred savings for highly compensated workers (“Management briefing,” 1998).

Many cost estimates of workers’ problems and their workplace productivity exist. According to Tang and Hammontree (1992), worker’s stress costs between \$100 and \$150 billion a year. Employees’ absenteeism is one of the high cost factors for employers. In 1993, Rogers and Herting (1993) estimated the direct cost from absenteeism to be between \$25 and \$35 billion a year. In a recent study, the cost of poor productivity due to personal financial problems of Navy service members ranged from \$172 million to \$258 million (Luther et al., 1997).

Various theories have been proposed to explain the relationship between personal financial problems and job productivity. Williams et al. (1996) presented Choice and Exchange Theory (Nye, 1978) as a guide to the explanation and prediction of worker productivity. Garman et al. (1996) explained the impact of personal financial problems on productivity with the “Within the Circle - Out of Balance - Spiraling Sphere” model. The Double ABCX model (McCubbin & Patterson, 1983) is also used to illustrate the relationship. However, very little research has been conducted in the area of theory utilization of financial problems and productivity.

### **Justification for the Study**

The incidence of personal financial problems is a concern of U.S. households. For example, one survey showed that “two-thirds of Americans say they have trouble paying their bills and worry about money” (“Coping with,” 1996). Increasing consumer debts and bankruptcy filings are also evidence of this fact. The number of personal bankruptcies doubled between 1988 and 1996. In 1996 personal bankruptcies rose to “1,242,700 filings, up 35%” over the previous year (“Criticism,” 1997). In 1997, consumer bankruptcy filings rose to 1,350,118 filings, a 20% increase from 1996 (“Bankruptcies,” 1998). The negative impacts of personal financial problems of workers on job productivity have been established in literature. For example, research from the Department of Defense showed that the stress caused by financial difficulties influenced increased absenteeism, lowered productivity, and heightened interpersonal problems (Department of Defense (DOD), 1995). A recent study showed that financial problems of Navy personnel were “a contributing factor in 14% of fatal accidents or those costing more than \$1 million” (Tennant, 1997). Another study of Navy service members’ personal financial management difficulties showed an annual direct cost of \$36 million to the Command from productive time lost in processing paperwork and counseling (Luther et al., 1997). As noted earlier, Brown (1993a) reported 10% as a conservative estimate of the number of workers in the workplace with financial difficulties. Garman et al. (1996) estimated the number as 15%.

As previous studies have shown, the impact of personal financial problems and difficulties in worker job productivity are significant. However, relatively little theoretically based empirical research on the relationship of personal financial problems and productivity concerns has appeared in literature. The conceptual area dealing with the relationship between personal financial problems and worker productivity is not a robust model; therefore, conducting scientific research based on a theoretical model has been difficult. Williams et al. (1996) mentioned this lack of scientific research in the financial concerns and productivity area. Therefore, the need for a conceptual model that describes the relationship between personal financial wellness and job productivity is needed.

### **Statement of Problem**

The problem that was examined in this research was to develop and test a conceptual model that describes the relationship between financial wellness and worker job productivity. The model specified the relationships between personal financial wellness and worker job productivity, personal financial wellness and workplace financial education, and workplace financial education and worker job productivity. A part of this model that examines the relationship between personal financial wellness and worker job productivity was tested using a sample of clerical workers in a large employer in mid-eastern state. A survey instrument focusing on conceptualization of personal financial wellness was developed.

### **Research Question**

After conceptualizing the model that describes the relationship between personal financial wellness and worker job productivity, the measures of personal financial wellness and worker job productivity were operationalized. An empirical test of the conceptual model focused on the relationship between personal financial wellness and productivity. The following research questions were addressed in the empirical test:

- (1) What is the personal financial wellness profile of workers? The question especially focused on the areas of subjective perception of personal finance, behavioral

- assessment of personal finance, objective scale of personal financial wellness, and overall satisfaction with personal financial situation.
- (2) How does the personal financial wellness profile differ by the demographic characteristics?
  - (3) What is the relationship between financial stressors and personal financial wellness?
  - (4) What is the relationship between the personal financial wellness and financial stress level?
  - (5) What is the worker job productivity profile in the self-reports of job productivity change, performance rating, absenteeism, worker's compensation claims, and work time use for personal financial matters?
  - (6) What is the relationship between personal financial wellness and worker job productivity?
  - (7) What is the relationship between financial stress and worker job productivity?
  - (8) What financial education programs do workers want in the future?

### **Uses of the Study**

The conceptual model of personal financial wellness and worker productivity will provide a base for future research development. The model can be utilized in wellness research, stress research, and employee benefits research. Development of a personal financial wellness profile can be achieved based on this research. Also, the model can be used in research examining the relationship between personal financial wellness and other phenomenon such as marital quality. This research can provide a base for a model illustrating the progression from personal financial difficulties to financial stress. Also, this research can offer helpful information for identifying some causes of worker problems as well as estimating the potential costs of personal financial problems in the workplace by calculating productivity losses.

The empirical test of the relationship between financial problems and productivity can highlight the importance of workplace financial education. The profile of personal financial wellness of

workers can indicate the financial well-being level of workers. And the profile can provide useful information to financial counselors, financial planners, and other practitioners by identifying the financial wellness level of workers. Based on this research, the need for personal finance education can become clearer to educators, financial practitioners, employers, and employees. The level of preparedness for retirement can show the importance of retirement education at the workplace.

The measures of personal financial wellness can be used by financial counselors, financial planners, and cooperative extension specialists for future research. The four financial wellness scales and the measures of productivity can also be used in future research studies associated with the development of employee assistance programs, examinations of levels of personal financial wellness, and identification of the relationship of stressors and personal characteristics.

### **Delimitations of the Study**

This study was delimited to an empirical test of the developed conceptual model in the areas of identifying a personal financial wellness profile, describing personal financial wellness according to demographic characteristics and financial stressors, exploring the relationship between personal financial wellness and financial stress level, and examining the relationship between personal financial wellness and productivity. Because the sample of this research has not received workplace financial education, the examination of the effects of personal finance employee education on worker job productivity could not be conducted.

This study was delimited to the conceptualization of subjective perception and behavioral assessment of financial wellness in the area of credit management, cash management, income adequacy, personal finance management, and consumer shopping skills. The stressors were delimited to events related to personal finance because the primary concern of this research was the financial aspects of workers. The demographic variables were delimited to gender, marital status, education, ethnicity, age, income, the number of financial dependents, and housing tenure.

Also, the length of employment with current employers was included as one of the demographic characteristics, because the length of employment was assumed to be a significant factor in explaining personal financial wellness and productivity. The measure of productivity was delimited to self-reports of productivity change compared to the previous year, performance rating from bosses, absenteeism, use of worker's compensation claims, and time used for personal financial matters in workplace.

The sample was delimited to clerical workers of a large American employer in mid-eastern state. Since the productivity measure can be utilized and interpreted differently across a variety of jobs, this study focused on one type of workers.

The study was delimited to a mail survey instead of personal interviews or a telephone survey. Because the instrument included some sensitive data such as income, age, ethnicity, financial practices, savings, and credit payments, the mail survey was a better method for impartially collecting data than personal interviews or telephone surveys.

### **Limitations of the Study**

A possible weakness of this study may come from the empirical research process. The representativeness of the sample for the whole of clerical workers could be low because of the geographic uniqueness. Lack of generalizability, therefore, recognized as a possible weakness.

The inability to obtain accurate objective data was a limitation of this study. Data such as savings ratio, debt-to-income ratio, self-evaluation of the productivity, performance rating, and absenteeism are difficult to gather as individuals may not know the exact figures of each category or may not want to reveal this information.

Measures on the subjective category may not be interpreted correctly by respondents and the researcher. The literature shows a tendency for respondents to report high levels of satisfaction in the financial domain (Hafstrom & Dunsing, 1973).

### **Definitions**

The following terms were used in this study:

#### Cash Management

Cash management referred to the financial practices for allocating and distributing income to living expenses and achieving financial goals (Garman & Fogue, 1997; Porter, 1990).

#### Consumer Shopping Skills

Consumer shopping skills incorporated adequate knowledge of consumer protection laws and regulations and comparison shopping in marketplace transactions.

#### Credit Management

Credit management referred to “identifying, analyzing, and implementing credit use based on needs and wants so that a safe debt load is maintained” (Porter, 1990, p. 22).

#### Employee Assistance Program (EAP)

Employee assistance program referred to the treatment, help, or education of workers who have experienced various personal problems that detract from their workplace productivity (Brown, 1979b; Ford, 1993; Steele, 1995).

#### Financial wellness

Financial wellness was conceptualized as a level of financial health. It included the satisfaction with material and non-material aspects of one’s financial situation, perception of financial stability including adequacy of financial resources, and material and non-material financial resources that

each individual possesses. Both financial well-being and economic well-being were used as proxies of financial wellness.

### Financial Stress

Financial stress referred to the stress that is caused by financial situations including personal, family, and other financial circumstances.

### Income Adequacy

Income adequacy meant availability of income for necessities and other living expenses, including insurance.

### Personal Finance Employee Education

Personal finance employee education was information and education, and services provided by an employer to help its workers make informed decisions about employer-sponsored retirement plans, other employer furnished fringe benefits, credit and money management, and consumer protection (Garman, 1997b).

### Personal Financial Management

Personal financial management was “the management of the personal and family resources to achieve financial success. Financial success is the achievement of financial aspirations that are desired, planned, or attempted” (Garman & Forgue, 1997, p.4). Personal financial management included (a) financial planning for long-term and short-term financial goals, (b) financial management of income and credit, (c) financial practice through the purchase of housing, insurance, automobile, and other durable and non-durable consumer goods and various services including banking, insurance, and investment, and (d) investment for the future (Garman & Forgue, 1997; Kapoor, Dlabay, & Hughes, 1994; Mathur, 1989).

### Poor Financial Behavior

Poor financial behaviors were personal and family money management practices that have consequential, detrimental and negative impacts on one's life at home and/or work (Garman et al, 1996, p.158).

### Productivity

Productivity was the efficiency with which human labor is used to produce goods and services. It included job performance, absenteeism, and time efficiency.

## **Organization of the Remainder of Dissertation**

This chapter provided an introduction to financial wellness and productivity, as well as the purposes and justification of the research. Delimitations, limitations, and definitions were described.

The next chapter will review related literature, which includes financial wellness, financial problems, financial stress, the relationship between stress and productivity, the need for workplace education, the employee assistance program (EAP), the relationship between EAP and stress management, productivity, and measurement of productivity. Chapter III will describe and explain both the conceptual model and the empirical model of this research. Chapter IV will discuss methodology, Chapter V will present the results, and Chapter VI will analyze the results. Chapter VII will present further discussion about research findings. This report will conclude with Chapter VIII that includes a summary, conclusions, implications, and recommendations.