Financial Literacy Training Can Aid Employee Productivity and the Bottom Line

The Growing Importance of Personal Financial Literacy

As employees become increasingly responsible for their own financial future, it is more important than ever for them to become financially literate.

With the future existence of Social Security questionable, the growth of 401(k) and other portable employee-driven alternatives to provide a survivable retirement, combined with a demonstrated lack of basic financial knowledge and understanding on the part of today's workforce, it is no longer possible for employers to ignore what has become, in effect, a new fiduciary responsibility.

The number of companies and consultants eager to offer advice and guidance to a company's employees on how to handle their own finances is continually growing. Even the Federal Reserve Bank has a formal program in place to advise the nation's employers on how to provide their employees with financial training that's on a par with other company training initiatives.

It's No Longer Bringing Stress Home; it's The Other Way 'Round

In part, this need for employee financial training has come about because research over the past few years has shown that employees increasingly bring their personal financial problems to work with them. With more family homes facing foreclosure than at any time since the 1930s and personal savings dropping to less than one-half of one percent, it is easy to see why employees are distracted with personal financial concerns. If employers want assist their employees in being more productive on the job, it naturally follows that it is in employers' best interests to provide at least the basics of personal financial management to help reduce their employees' financial stress.

A recent study conducted by the Employee Benefit Research Institute, a Washington retirement research organization, and Mathew Greenwald & Associates, a Washington public opinion and market research company found:

- The percentage of workers who said they were very confident about having enough money to retire comfortably dropped to 18 percent from 27 percent in 2007-- the largest one-year drop in confidence in the 18-year history of the survey.

- While the percentage of workers who say they've saved for retirement rose to 72 percent in 2008 from 66 percent the year before, nearly half of those saving for retirement had total savings and investments — minus the value of their primary residences and any defined-benefit plans — of less than $50,000.

- Seventy-six percent of workers who said they had not saved for retirement reported total assets of less than $10,000.

Employees' financial stress levels at work cost their employers as much as six hours a week in lost productivity. Indirect costs – inability to pay for adequate health care, child care, efficient transportation – can add even more unproductive time as employees try to find with less expensive alternatives or operate without needed coverage.

It's Time for a New "Contract"

The employee-employer contract for today's "knowledge workers" thus can no longer be solely defined by traditional benefits—salary, health insurance, vacation, pension, etc. There is now a significant amount of evidence that correlates financial literacy with individual employee productivity in the workplace.

If an employee does not understand his/her own financial situation and alternatives, that same employee is highly unlikely to grasp the implications of corporate cash flow, budgetary planning, stock performance, etc. At the same time, with many industries reporting reduced sales and earnings, it would seem to make sense to tie the two issues, personal financial literacy and company financial issues together. If a company sponsors an educational program for employees that demonstrates how to realistically handle their personal finances, it is far easier for those same employees to comprehend their contributions to the success of their employer can potentially increase their own financial stability and reduce their personal stress levels.

Involved Employees Take Ownership

The idea of an employee's "involved ownership" in the success of the company is underscored by Bill George, in his book *Amazing Leadership*. George points out that "It is only through a sense of purpose that companies can realize their potential. It is their raison d'être that animates employees and inspires them to turn purpose into reality. In recent years many companies have "sold out" to the financial community in a never-ending quest to drive their stock price higher. Once a company does so, it is extremely difficult to regain a sense of purpose. It is a paradox that by focusing on pleasing shareholders they wind up pleasing no one—not their customers, their employees, their communities, and ultimately not their shareholders. The best path to long-term growth in shareholder value comes from having a well-articulated mission that inspires employee commitment… Employees today are seeking meaning in their work. Since they spend more time at work than anywhere else in their lives, shouldn't they demand meaningful work? In mission-driven companies employee motivation comes from believing in the purpose of the work and being part of creating something worthwhile."

More Is Not Necessarily Better

Employees who lack that commitment, that understanding of how they fit in the overall scheme of things, most often results in their seeing the solution to their personal financial problems as a linear one-dimensional path, where the only answer is more money and more benefits. This obviously tends to push the employee-employer relationship out of balance.

When employees want a continuously larger slice out of a continuously diminishing pie there can be few satisfactory solutions.

An alternative scenario can be found in Nucor:

"In an industry as Rust Belt as they come, Nucor has nurtured one of the most dynamic and engaged workforces around... Nucor's flattened hierarchy and emphasis on pushing power to the front line led its employees to adopt the mindset of owner-operators. It's a profitable formula: Nucor's 387% return to shareholders over the past five years handily beats almost all other companies in the Standard & Poor's 500-stock index…" *

A New Theory to Leverage Organizational Behavior

Harvard Business School Wallace Brett Donham Professor of Organizational Behavior Emeritus Paul R. Lawrence (www.prlawrence.com) discusses a new book by Robert Simons, *Levers of Organizational Design*, which demonstrates explicitly how a theory called Renewed Darwinian "can be applied to the *structural design* of corporations. Simons offers the most sophisticated and advanced model available on how to build the four innate human motivational drives, the drives to acquire, dA); to bond, dB); to comprehend, dC); to defend, dD), into the structures and standard practices of a firm:

dA. Design unit structures, incentives, and the control of corporate resources in a fashion that gives individuals a chance to acquire financial gain, status, and a sense of personal accomplishment.

dB. In Simons's own words, "the drive to bond reflects the social nature of human beings… In our model, the drive to bond is reflected in shared responsibilities and span of support. . . . To be successful and sustainable, organizations must offer participants the opportunity to interact with others who can provide a sense of sharing and belonging—not only to one or more of the individual sub-groups that make up the organization but also to the purpose, history, and culture embodied by the organization itself."

dC. Appoint people to teams and task forces that cut across organizational lines to provide them with "an outlet to exercise their innate desire to create experiment, improve and learn.

dD. Provide early warning systems to alert individuals of threats to personal and organizational goals. This is done with diagnostic control systems and by defining each individual's and each group's span of accountability. These systems avoid surprises and give individuals the freedom to make trade-offs to ensure that assets and individual achievements are secure.

Theory Becomes Reality on the Job

The most successful and realistic solution from a training standpoint is for employees to have better control over their spending, more realistic personal goals, and a feeling that there is a much more direct relationship between what they do for an employer and how well that employer does in the marketplace than they realized.

At Herman Miller, the Western Michigan furniture manufacturer, shipping department employees took the initiative to devise and test new ways of loading those huge 110-foot trailers used to ship their furniture. When implemented these initiatives saved the company nearly $3-million in freight costs and untold amounts in improved customer service because of more effective delivery time estimates.

Financial Training and Fiduciary Responsibility

Cygnet Institute has been a pioneer is designing and presenting interactive workshops and other training programs to help participants grapple with this issue. We've been doing it successfully for more than twenty years with companies ranging from General Motors Powertrain Division to Amerisure Insurance.

These and many other features have made our workshops quite attractive with respect to the fiduciary requirements recently imposed on 401(k) plan sponsors by the Department of Labor. Our approach is to custom design the educational series based on the needs of the employee population. We use a "hands on" approach that allows employees to create their own financial plans from their own data—either in the classroom, online, or a combination design.

We've always felt that the "educational" workshops and seminars utilized by financial services companies and investment representatives were essentially marketing devices. That is why Cygnet Institute is a separate educational company whose charter prohibits accepting or referring any program participants as clients, for any purpose. Although the use of education as a sales tool continues to this day, the practice is coming under greater scrutiny with the implementation of the Fiduciary Adviser Safe Harbor provisions of the Pension Protection Act.

Heightened Need for Comprehensive Financial Training

The significance of comprehensive fiduciary compliance has been elevated by the February 20, 2008 Supreme Court LaRue Decision. As a result, we now have the spectacle of individual employees and plan participants being able to file lawsuits against employers, plan sponsors and plan providers over alleged fiduciary breaches. As an independent firm, not connected to an insurance or investment company, we are somewhat unique in being able to help employers protect themselves in this increasingly litigious environment.

Cygnet Institute's fiduciary approach to employee financial literacy education is not only more effective in terms of aligning the financial interests of the employees and the employer, but it can also help reduce the employer's civil and regulatory liability exposure. This is accomplished by a number of design features and policies in our workshops. Among these is the fact that our workshops are interactive and self-completing. Their experiential nature enhances the learning experience of participants by guiding them to deal with their personal finances hands-on and in class -- confidentially.

Objectivity is assured by our policy that prohibits instructors from soliciting or accepting participants as clients. This policy helps avoid any potential Prohibited Transactions under ERISA and also helps fulfill the level compensation and other Fiduciary Adviser safe harbor requirements of the Pension Protection Act.

Our free market economy cannot survive the corrosiveness of personal financial ignorance on the part of employees – who are also consumers in the broader marketplace. The recent sub-prime mortgage debacle is a good example of how much can go wrong when people make bad financial decisions.

It is in the best interest of all of us for employers to provide a much broader understanding to their employees of the interrelationship of their personal financial situation, with their longer-term financial goals and how those relate to those of their employer.

Cygnet Institute can do that.

* Byrnes, N. *Business Week*, "The Art of Motivation", May 1, 2006, p. 57-62.