The Misunderstood Financial Link Between Employee and Employer

It does not take too much imagination to see that today's workers - laborers, professionals, executives, clerks, etc.- define success as fulfilling for 8 or 10 hours a day the tasks they are assigned which have been determined to be necessary for the organization to succeed. For this performance, the organization gives the worker money in exchange for the time spent performing those tasks.

If the organization does well, and the worker is a positive contributor to that success, the worker now has money to use to manipulate and change aspects of their immediate environment. If the worker does not do their job well, and the organization recognizes this, the worker could lose their job. If the organization has improperly designed the job or is lax in measuring the quality of the worker's performance, the organization could fail - leaving the worker without a job. The problem in today's world is that these dynamics are not always obvious to the average worker.

Cygnet's effort in this area has been to find ways to make the connection between productivity and personal welfare easier to discern and thereby assist the worker in making decisions that help advance their lifestyle quality goals. The solution rests with a clear understanding of several principles that are described below:

● Economic integrity and understanding are very important elements in a successful employee-employer relationship.

● A financially secure employee is more apt to focus on their job in a way that leads to higher productivity.

● A successful employee-employer relationship translates into lower costs and a more competitive position in the marketplace for the employer.

● Unbiased personal financial planning can help the employee better understand this relationship (their wages and benefits vs work productivity) and be a more effective employee as a result.

● The employee who is knowledgeable about their personal financial needs is more apt to execute their job responsibilities in a way that "aligns" achievement of their personal goals with those of the system in which they earn their living.

● An employee's perception of the balance between their present and future lifestyle is the gauge they ought to use to measure the adequacy of their present and future compensation. Financial planning is a tool that can help the employee identify the proper balance between their lifestyle goals and compensation.

These issues are best addressed by a properly designed personal financial planning program that can guide individuals to assemble all the relevant issues in a cash-flow model that can help them understand their true financial relationship with their employer. Regrettably, most financial institutions have "highjacked" this process and have turned financial planning into a marketing lure to attract customers. But the process is still valid, when it is applied as an educational tool by prohibiting any insurance or investment sales possibilities for the instructor and the institution.

This process of helping people improve awareness of their personal finances can be further enhanced by bringing to the surface several key economic principles that are very relevant to the financial planning process. Personal Financial Management is a derivative activity based on economic principles and concepts. It is a process that has become necessary as the complexity of our financial lives continues to increase. To fully comprehend the various aspects of the financial planning process, one must also understand some core economic principles. The financial decisions a person makes are more likely to be permanent if they are the result of a change in behavior. And meaningful behavior modification is more likely to occur if the individual has a credible foundation of knowledge on which to base their decisions. Listed below is a list of the economic principles that must be understood for the Financial Planning process to succeed:

- SCARCITY necessitates choice. If we can't have everything we would like, we must consciously choose those things we want the most.
- OPPORTUNITY COST is the forgone benefit of the alternatives not chosen. Consumers will attempt to obtain the mix of goods and services that will provide them with the greatest satisfaction for their available buying power.
- INCENTIVES motivate and influence human behavior. People naturally make decisions they feel leads them towards achievement of their goals.
- ECONOMIC SYSTEMS is the collection of institutions, laws, activities, controlling values and human motivations that collectively provide a framework for economic decision-making. Our system is a Market Economy of decentralized decision-making in which individuals, can act as consumers, producers, workers, savers and/or investors.
- PRODUCTIVITY is the amount of output (goods and services) produced per unit of input (productive resources) used. The three principal means of increasing productivity are: (1) specialization and the division of labor; (2) investment in capital goods; and (3) investment in human capital. Understanding this concept is critical in the employee-employer relationship.
- TRADE or exchange is the distribution of the excess output that was created by producers which they themselves cannot consume. Money in turn facilitates this exchange.