

## **FINANCIAL DISTRESS AMONG EMPLOYEES: AN EXPLORATORY STUDY**

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### *ABSTRACT*

Financial distress can be defined as a reaction, such as mental or physical discomfort, to stress about one's state of general financial well being. In today's society, credit is so easily available that people tend to overspend and find themselves into deep trouble. This study is conducted because the researchers believe that there are many people who face financial distress in life. With many newspaper reports related to financial difficulties which include crime cases involving loan sharks' and credit card bankruptcies, it seems like many people now are facing difficulties financially which might lead them to have financial distress. This paper tries to investigate whether or not our people nowadays are financially distressed and also tries to find out what are the causes that lead them to have such a problem. This paper used self-administered survey questionnaire to analyze the topic. A sample of respondents among employees of a company has been selected in order to achieve the objectives. The data were analyzed using SPSS (Statistical Package for Social Sciences) and the statistical methods that have been used for the analysis are descriptive statistics, chi-square test, and factor analysis.

*Keywords* : financial distress; finance; personal finance.

### **1. Introduction**

Financial distress can be defined as a reaction, such as mental or physical discomfort, to stress about one's state of general financial well being. In particular, it includes perceptions about one's capacity to manage economic resources (such as income and savings), pay bills, repay debts, and provide for the needs and wants of life (O'Neill et.al, 2006). It can last a short time or it can become a persistent state. Stressor events that contribute to financial distress include receiving overdue notices from creditors and collection agencies, issuing checks with funds insufficient to cover them, getting behind on bill payment, and worrying about whether one will be prepared financially for major life events like retirement (Garman et.al, 2004)

For employees at work, financial distress and dissatisfaction is demonstrated in a variety of ways. Job performance, worker productivity, tardiness, absenteeism, retention, turnover, work commitment, job satisfaction, morale and loyalty are human satisfaction indicators of employee outcomes at workplaces. The financially distressed employees spend time at their place of employment worrying about personal finances and dealing with financial issues instead of working. As a result they may take time from work to talk with co-workers about personal financial problems, communicate with creditors about past due payments, pay personal bills, balance a check book, or talk to a lender about a debt consolidation loan. They may pay bills while at work. Because of their financial distractions, they are unable to carry out their normal responsibilities, have to cut down their workload, and are not able to accomplish as much as usual. This cycle further interrupts employee

performance, workplace attendance and poses greater financial burdens compiling stress and financial pressures. Personal financial distress, therefore, negatively impacts employers.

People especially employees do not realize that they should not spend more than they earn. It seems like a basic concept but in today's society, credit is so easily available that people tend to overspend and find themselves into deep trouble. Based on newspaper reports in Malaysia, there have been many cases related to financial distress. Among others are cases related to loan sharks and credit card bankruptcies. This paper tries to investigate the existence of financial distress among our society especially employees and will suggest several remedial steps to curb the problem.

## 2. Literature Review

Nowadays, workplace is greatly affected by employees who are experiencing personal problems. Research on the interface between work and family problems suggests that problems at home may affect job performance and vice versa (Forthofer, Markman, Cox, Stanley, & Kessler, 1996). Some of these personal problems are financial problems or known as financial distress. According (Garman et.al, 1996), they have estimated that 10 to 15% of the workforce is affected by financial problems to the extent that they negatively affect job productivity

Many studies suggests that personal financial wellness and worker productivity are related (Joo, 1998; Kratzer, Brunson, Garman, Kim, & Joo, 1998; Williams et al., 1996). If employees were not stressed due to financial concerns, perhaps they would be able to focus more on their jobs. Cash (1997) noted, "There is a greater awareness of the need to address personal finance as an important life dimension". Kim (2000) reported direct evidence of the causal relationship between personal finances and work outcome. Employees were reported to spend some work time on dealing with financial matters. In addition, one-quarter of the employees admitted that they spent work time worrying about their personal finances. The researcher showed a link between workplace financial education and worker's retention. More than a quarter of the employees in her study perceived that workplace financial education was important in their decision to continue working for the current employer.

Based on a national team of academic scholars and other experts, they conclude that 30 million workers in America were seriously financially distressed. Not only does this has negative consequences for individual workers, their families, and employers, but it also constitutes a serious social problem. People who are financially distressed often live paycheck-to-paycheck and are dissatisfied with their financial situation. Besides that, the study concludes that poor health and financial distress are related and also personal financial problems negatively impact workers' productivity (Garman, et al., 2005).

Good financial practices are considered indispensable for financial satisfaction and financial satisfaction is expected to impact career satisfaction. Evidence shows that employees' financial problems affect workplace performance, increase absenteeism, and contribute to turn over (Garman, Leech, and Grable, 1996; Joo and Garman, 1998; Kim, Bagwell, and Garman, 1998; Garman et.al, 1999; Kim, 2000). According to Williams et al. (1996), employees who are burdened with financial problems are not likely to perform at their full potential. Garman et al. (1996) summarized the characteristics of financial behaviors that affect employee productivity. They conclude that financial mistakes, careless behaviors, and stressful situations are interrelated and cumulative and associated with reduced employee productivity.

### **3. Objectives Of The Study**

Specifically this study aims to achieve the following objectives:

- To describe and analyze the financial distress among employees.
- To investigate the factors that contribute to financial distress among employees.

### **4. Data And Methodology**

#### **4.1 Questionnaire**

This study uses a self-developed questionnaire as it is an exploratory study. The questionnaire consists of three parts. Part A consists of questions with the purpose of finding out the background characteristics of the respondents. Part B seeks information regarding respondents' financial life during the past 12 months from the day of the questionnaire being distributed. They were asked to give answers using five-point Likert scale ranging from 1 = always to 5 = never. Part C tries to investigate the factors which lead to financial distress among the respondents. Before the actual data collection was conducted, a pretest was done involving 20 respondents to check for the reliability of the questionnaire.

#### **4.2 Sample**

The respondents of this study comprise of employees of a reputable company in this country. The questionnaire was distributed to a total of 200 employees of its branches in Pahang which are located in Kuantan, Maran, Temerloh, Jengka, Jerantut, Bentong and Raub. A total of 173 employees returned completed questionnaires producing an overall response rate of 86.5 percent; 172 set of questionnaires were usable for statistical analysis. One questionnaire has been rejected due to incomplete response.

#### **4.3 Measurement Instrument**

The collected data was analyzed using SPSS (Statistical Package for the Social Science). Descriptive statistics such as frequency, percentage, and mean were used to interpret the data. Factor analysis was also conducted in analyzing the data.

### **5. Findings Of The Study**

#### **5.1 Reliability Test**

Reliability test is conducted using Cronbach Alpha. Using reliability analysis, we can determine the extent to which questions are related to each other. The overall index of the repeatability or internal consistency of the scale as a whole would be generated and identification of problematic items that should be excluded from the scale would be generated too.

As shown in Table 1 the cronbach's alpha coefficient as computed for the 23 items in Part C of the questionnaire is 0.958. It implies the questionnaire has a relatively high internal consistency and therefore reliable as the cronbach's alpha value is above 0.70 (Nunnally, 1970).

Table 1 : Reliability Test

Cronbach's Alpha	N of Items
.958	23

## 5.2 Demographic Profile of Respondents

Table 2 shows the profile of respondents. Majority of the respondents are male (69.8%) and mostly are at the range of age 46 to 55 years old (41.3%). In terms of gender, majority is Malay respondents (93%) followed by Indian (3.5%), Chinese (2.3%) and other races (1.2%).

Table 2: Demographic Profile of Respondents

VARIABLES		N	%
Gender	Male	120	69.8
	Female	30.2	30.2
Age	25 or below	28	16.3
	26 – 35	31	18
	36 – 45	42	24.4
	46 - 55	71	41.3
Race	Malay	160	93
	Chinese	4	2.3
	Indian	6	3.5
	Others	2	1.2
Marital Status	Single/Divorced/Separated	54	31.40
	Married	118	68.60
Education Level	No formal education	1	0.6
	Primary school	5	2.9
	Secondary school	96	55.8
	Diploma	59	34.3
	Bachelor Degree	9	5.2
Job Position	Post graduate	2	1.2
	Executive	12	7
	Non-executive	160	93
	<RM1000	20	11.6
	RM1000-RM2000	57	33.1
Average Monthly Income	RM2000-RM3000	50	29.1
	RM3000-4000	36	20.9
	RM4000-5000	7	4.1
	RM5000 and above	2	1.2
Total Amount of Debt/ Loan	<RM10000	131	76.2
	RM10000-20000	15	8.7

	RM20000-30000	9	5.2
	RM30000-40000	6	3.5
	RM40000-50000	2	1.2
	RM50000 and above	9	5.2

Of the total respondents 68.6 % are married employees. In terms of education, , majority have secondary school as their highest level (55.8%). As a result,, based on their education background, this study found that majority of the respondents are at the level of non-executive job position (93%) and the remaining are those executive employees (7%). The highest range of income among them is between RM1000 to 2000 (33.1%) followed by income ranging from RM2000 to RM3000 (29.1%). Besides that, in terms of total amount of debt or loan 76.2% of respondents have amount of debt or loan below RM10000.

**5.3 Respondents’ Satisfaction on Their Financial Situation**

Table 3 shows the results of five-point Likert scale statements ranging from 1= not agree at all to 5 = strongly agree. In general, the respondents are found to be not satisfied with their present financial situation (mean = 2.85). They do not agree on the statement saying that their financial situation does not make them stressed all (mean = 2.83). In other words, we can say that their financial situation makes them feel stressed. On average, they feel not very secure with their personal finances for retirement (mean = 2.95). They do not also feel that they are very well off financially (mean = 2.94).

Table 3: Respondents’ Satisfaction on Their Financial Situation

	Mean	Std. Deviation
I'm very satisfied with my present financial situation	2.85	0.931
My financial situation does not make me feel stressed at all	2.83	0.872
I feel very secure with my personal finances for retirement	2.95	0.9
I'm very well off financially	2.94	0.919
I've always been receiving financial assistance from my family or others during the past 12 months	2.37	1.02
I feel that my health has been affected by my financial problems	2.42	0.973
The stress from my money problems always interfered with my work	2.53	1.067

However, eventhough they agree that they feel stressed with their financial situation, they do not always been receiving financial assistance from their family or others during the past 12 months from the time the survey was conducted (mean = 2.37). Furthermore, they do not feel that their health had been affected by financial problems (mean = 2.42). The respondents also do not agree on the statement saying that the stress from their money problems always interfered with their work (mean = 2.53).

**5.4 Causes of Financial Problems to Respondents**

Table 4 below shows the factors that lead to financial problems among the respondents. Majority of them agree that they have financial problems (69.2%). The main factor that causes thire financial problems is they spent too much (65.1%). The second factor is that they do not have enough income (52.3%) followed by lack of spending plan (30.8%). An interesting result is when 24.4% of the respondents agreed that alcohol or drug use as the factor that causes their financial problems.

Table 4: Causes of Financial Problems

Causes		N	%
I do not really have financial problem	Yes	53	30.8
	No	119	69.2
Not enough income	Yes	90	52.3
	No	82	47.7
Medical bills	Yes	21	12.2
	No	151	87.8
Accident	Yes	17	9.9
	No	155	90.1
Illness	Yes	38	22.1
	No	134	77.9
Lack of a spending plan	Yes	53	30.8
	No	119	69.2
Overuse of credit	Yes	35	20.3
	No	137	79.7
Just didn't get around to paying bills	Yes	21	12.2
	No	151	87.8
Legal problems	Yes	4	2.3
	No	168	97.7
Got divorced/separated from partner	Yes	0	0
	No	172	100
Layoff/cutback in my hour's	Yes	2	1.2
	No	170	98.8
Caring for dependants or parents	Yes	6	3.5
	No	166	96.5
Lottery or gambling	Yes	5	2.9
	No	167	97.1
Spending too much	Yes	112	65.1
	No	60	34.9
Buying too many gifts	Yes	2	1.2
	No	170	98.8
Alcohol or drug use	Yes	42	24.4
	No	130	75.6
Others problem	Yes	5	2.9
	No	167	97.1

Illness has also contributed to financial problems among respondents (22.1%). As stated in Table 1 earlier, majority of the respondents are those ranging from 46-55 years of age. This

might lead to the result of illness as the contributing factor to their financial problems. Overuse of credit contributes to 20.3% as the factor that leads to their financial problems.

**5.5 Cross Tabulation of Respondents’ Age with Causes of Financial Problems**

Crosstabulation was done between respondents’ demographic profiles and the factors that cause financial problems to respondents. Based on chi-squares test results, there are only two relationships that are found to be significant as shown in Table 5 and Table 6 below. As referred to Table 5, there is a significant relationship between respondents’ age and illness as the factor that causes financial problems to them. The chi-square value is 8.496 and significant at 5% level.

Table 5: Cross Tabulation of Age vs. Illness

Crosstab							
		Age				Total	
		25 and below	26-35	36-45	46-55		
Illness	yes	Count	8	5	15	10	38
		% within Illness	21.10%	13.20%	39.50%	26.30%	100.00%
		% within Age	28.60%	16.10%	35.70%	14.10%	22.10%
		% of Total	4.70%	2.90%	8.70%	5.80%	22.10%
	no	Count	20	26	27	61	134
		% within Illness	14.90%	19.40%	20.10%	45.50%	100.00%
		% within Age	71.40%	83.90%	64.30%	85.90%	77.90%
		% of Total	11.60%	15.10%	15.70%	35.50%	77.90%
Total	Count	28	31	42	71	172	
	% within Illness	16.30%	18.00%	24.40%	41.30%	100.00%	
	% within Age	100.00%	100.00%	100.00%	100.00%	100.00%	
	% of Total	16.30%	18.00%	24.40%	41.30%	100.00%	

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	8.496 <sup>a</sup>	3	.037
Likelihood Ratio	8.296	3	.040
Linear-by-Linear	1.515	1	.218
N of Valid Cases	172		

0 cells (.0%) have expected count less than 5. The minimum expected count is 6.19.

As shown in Table 6 below, there is a significant relationship between respondents’ age and overuse of credit as the factor that causes financial problems to them. The chi-square value is 20.170 and it is significant at 1% level.

Table 6: Table Cross Tabulation Age vs. Overuse of Credit

Crosstab							
		Age				Total	
		25 and below	26-35	36-45	46-55		
Overuse of credit	yes	Count	6	13	12	4	35
		% within Overuse	17.10%	37.10%	34.30%	11.40%	100.00%
		% within Age	21.40%	41.90%	28.60%	5.60%	20.30%
		% of Total	3.50%	7.60%	7.00%	2.30%	20.30%
	no	Count	22	18	30	67	137
		% within Overuse	16.10%	13.10%	21.90%	48.90%	100.00%
		% within Age	78.60%	58.10%	71.40%	94.40%	79.70%
		% of Total	12.80%	10.50%	17.40%	39.00%	79.70%
Total	Count	28	31	42	71	172	
	% within Overuse	16.30%	18.00%	24.40%	41.30%	100.00%	
	% within Age	100.00%	100.00%	100.00%	100.00%	100.00%	
	% of Total	16.30%	18.00%	24.40%	41.30%	100.00%	

## Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	20.170 <sup>a</sup>	3	.000
Likelihood Ratio	21.491	3	.000
Linear-by-Linear Association	9.088	1	.003
N of Valid Cases	172		

0 cells (.0%) have expected count less than 5. The minimum expected count is 5.70.

### 5.6 Factor Analysis

Factor analysis attempts to identify underlying variables, or factors, that explain the pattern of correlations within a set of observed variables. It is often used in data reduction to identify a small number of factors that explain most of the variance observed in a much larger number of manifest variables. It can also be used to generate hypotheses regarding causal mechanisms or to screen variables for subsequent analysis (for example, to identify co-linearity prior to performing a linear regression analysis). In this analysis, the factor analysis procedure using the varimax rotation would be used in order to identify the questions that could be grouped together which influence the determinant in having financial problem. Furthermore, the reduction of data or uncorrelated questions would reduce the variables used in future analysis.

Table 7 : KMO and Bartlett's Test



Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.917
Bartlett's Test of Sphericity	Approx. Chi-Square	3711.404
	df	253
	Sig.	.000

The Kaiser-Meyer-Olkin measure of sampling adequacy (KMO) test shows that the factor analysis could be done because it is more than 0.5. Therefore no variables would be excluded. In addition the Bartlett's test of Sphericity is significant at 1% level and therefore we conclude that the factor analysis could be further analyzed.

Table 8 : Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	12.014	52.235	52.235	12.01	52.235	52.235	6.072	26.4	26.4
2	2.505	10.893	63.128	2.505	10.893	63.128	5.612	24.402	50.802
3	1.559	6.779	69.907	1.559	6.779	69.907	4.394	19.105	69.907
4	0.915	3.98	73.887						

Based on the total variance, there are 3 factors were extracted because the eigenvalues are higher than 1 for the respective factors. According to the extraction it is noted that factor 1 could explain (26.400%), factor 2 (24.402%) and the factor 3 (19.105%) of the variation. The total of 3 factors could only explain 69.907% of the total variation.

The idea of rotation is to reduce the number factors on which the variables under investigation have high loadings. Rotation does not actually change anything but makes the interpretation of the analysis easier. Based on the varimax rotated components, the factors could be extracted to 3 factors based on the factor loadings which are higher than 0.5.

Table 9: Rotated Component Matrix

	Component		
	1	2	3
Received an overdue notice from a creditor			0.792
Paid utility bill late			0.791
Paid a credit card bill late			0.789
Got collection agency call about overdue bill			0.748
Made vehicle loan/lease payment late			0.647
Paid rent/mortgage late			0.633
Took cash advance on a credit card		0.572	
Did not have enough money to pay for emergency		0.767	
Could not afford to go out when desired		0.706	

Could not afford to make needed vehicle repairs		0.862	
Could not afford to pay vehicle insurance premium		0.801	
Could not afford to pay transportation cost to work		0.742	
Could not afford medical care		0.777	
Bounced a check	0.754		
Had wages garnished or attached			
Home went into foreclosure	0.726		
Spent time worrying about personal finances	0.671		
Taken time to handle personal financial issues while at work	0.823		
Read or studied about money matters while at work			
Borrowed money from co-workers	0.709		
Taken a long lunch or work break to deal with money matters	0.764		
Missed work deal with financial issues	0.862		
Had troubled a work because my mind was on money problems	0.828		

Based on the factor analysis we could regroup the factors to 3 groups with the subheadings as listed below:

Factor 1: Interference of financial problem at workplace and others.

Factor 2: Affordability to fulfill needs and wants.

Factor 3: Late payment bills etc.

## 6. Conclusion And Recommendations

As the findings reveal, we can conclude that the respondents are financially distressed. They are not satisfied with their financial situation and relatively feel insecure with their personal finances for retirement. However, they generally do not feel that their stress from money problems interfered with their work. Majority of the respondents agree that they have financial problems. Among the main factors that causes the financial problems are they spent too much followed by not having enough income and lack of spending plan. Illness and overuse of credit have also contributed to financial problems among a few respondents. Age has significantly played a role in determining illness overuse of credit.

In order to eliminate or reduce their financial distress, respondents should take several appropriate steps. They should plan for their spending as they agree that among the factors that lead to their financial problems are spending too much and lack of spending plan. They should also be encouraged to save money as much as they can as they feel insecure with their personal finances for retirement. Based on the demographic profiles, majority of the respondents have only secondary school as their highest education level, therefore they should think of furthering their study to a higher level as it can lead them having a higher level of income. Their employer should also play a role in encouraging them to do so. Employer should also consider providing employees access to financial education and/or advice and counseling at the workplace. Related activities such as talks, campaigns or discussions on saving, investment and financial planning could be organized for employees' wellbeing.

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