



# Overcoming FEAR and uncertainty

**Matt Hern** discusses the hidden profit risk in tough times: employee fear and uncertainty.



**Matt Hern** is a financial educator and CEO of FINDRE, which produces financial education programs.

“The only thing we have to fear is fear itself, nameless, unreasoning, unjustified terror which paralyses needed efforts to convert retreat into advance.” So said President Franklin D Roosevelt in his Inaugural Address in March 1933 in the midst of the Great Depression.

The greatest risk to profits right now is plummeting workforce productivity – precisely when companies cannot afford it. The Australian workforce is afraid. They fear for their jobs and they fear for their financial security. This fear distracts them and reduces their productivity and that of their colleagues.

The challenge for companies is to avoid fuelling this fear by too frequently emphasising the negatives. Unfortunately, stock-exchange disclosure rules almost oblige public companies to do just that. Directors must not buy into this fear. Doing so will be a self-fulfilling prophecy that will bleed profits.

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Knowing this presents you, as a director, with an opportunity to protect profits right now. It also presents you with an opportunity to position the company for future profit growth – to turn retreat into advance.

Warren Buffet is famously quoted as saying: “Be greedy when others are fearful.” His company, Berkshire

Hathaway, may have lost share market value, but in recent years, it has amassed billions of dollars in cash reserves. As he has done in past downturns, Buffet is positioning his company for profit growth by cherry-picking the golden opportunities. Will you be the opportunistic player with market-leading profit growth?

## THE STRATEGIC IMPACT (BOARDROOM METRICS)

Common statistics presented to you by management can provide an insight into how profitability is being affected by the financial wellbeing of a company’s workforce. The long-term trends may have spiked from around September 2008 when the average Australian started to be gripped by the gloom in the mass media.

The clearest indicator is an increase in unplanned absentees. As their concerns rise, employees take “mental health days” to relieve stress and to deal with their personal finances. Deadlines for projects may start to slip as productivity decreases. Or alternatively, projects with fixed deadlines will be over budget as more personnel hours are required to get the job done.

Safety is also affected as stress and distraction open the door to human error. This can be seen in an increase in reportable first-aid events and lost-time injuries.

Turnover can increase as workers move to companies they perceive to be more secure. This can be frustrating when you know these companies are no more secure than any others. However, it illustrates the importance of showing leadership by reinforcing the positives and managing the fear.

The uptake by employees of assistance programs is a statistic not commonly reported to the board, but which could prove useful at this time. Financial stress is a major contributor to relationship stress, which may be the symptom that prompts employees to reach out for help.

### ROI/COST OF THE PROBLEM

For every 100 employees whose productivity decreases by just 15 minutes a day, companies lose the equivalent of three employees a year. They lose half an employee for every 100 employees who take a “mental health day”.

Every key person who leaves costs the company between one and two times their annual salary in recruitment and training costs. The reputation cost of safety incidents and major projects delivered late and over budget is immeasurable yet significant.

However, profits can be protected right now if companies are prepared to invest in removing employee fear and improving their financial wellbeing.

### HOW STRESSED ARE EMPLOYEES?

Probably more than you realise. The consensus view among economists is that the Australian economy will continue to slow throughout 2009. Just knowing that is enough to cause angst among employees – but there’s more.

A University of Sydney survey reported in *The Australian* in October 2008 estimated that more than five million Australian workers were finding it difficult to manage their stretched household budgets or were only “just getting by” financially.

An Australian Government report, *Families in Australia: 2008*, indicated that “almost one fifth of adult Australians experienced one or more cash flow problems such as not being able to pay bills on time or seeking financial assistance from family and friends”.

A Citi Fin-Q Report on consumer financial wellbeing issued in September 2008 revealed that:

- Only 19 per cent of Australians always stuck to a budget, and only 28 per cent saved money from every pay cheque;
- 60 per cent of Australians did not fully repay their credit card each month; and
- More than one in five Australians confessed to having “no idea” of what to do in terms of investing.

Employee stress and the resulting negative behaviour can rapidly compound as fear grips them. This can be measured using a tool such as the Personal Financial Wellbeing scale developed by the Personal Finance Employee Education Foundation in the US.

### OPPORTUNITIES

When times are tough you discover who your true friends are. Without employees, a company cannot succeed, so

in a business sense employees are some of a company’s most valuable friends.

Encouraging management to invest in the financial wellbeing of employees, by helping them to manage their fears and reduce their stress, will ultimately boost profits. It also presents a great opportunity to engender loyalty. Employee loyalty translates to increases in employee retention, which will positively affect the bottom line.

### A BOARDROOM STRATEGY FOR ACTION

To assess the continuing effect that fear and uncertainty are having on productivity and profits, directors need to closely monitor the above-mentioned statistics. To gain deeper insight, you may request that some be sub-categorised by socioeconomic factors, such as age and income band.

Pay close attention to signs that your executive team have themselves been caught up in fear, as they set the tone for the organisation. Managers who cut all non-core expenditure regardless of the return on investment and effect on morale may be acting out of fear rather than reason. Encourage them to show leadership by reinforcing the benefits the company offers and why it remains a great place to work.

At a practical level, suggest to managers that they implement a comprehensive, continuing employee financial education program. Fear is driven by uncertainty. Financial literacy allows people to feel more certain, confident and in control of their situation.

“Education does not mean teaching people to know what they do not know; it means teaching them to behave as they do not behave,” said John Ruskin, the 19th century author.

Employee financial education is not something that is ever “done” to employees. It something management does to enable its employees. Encourage management to engage specialist educators who can implement programs that match the diversity of learning styles and operational situations in the organisation.

### IMPLEMENT A CONTINUING PROGRAM

Employee confidence can change overnight due to unexpected news, such as the actions of competitors. The sudden closure of the Ravensthorpe mine by BHP Billiton is a good example. The facts may not have changed, but the perception of many resource industry workers suddenly did. Changed perception can alter employee behaviour in a way that costs a company money. Investment in the financial wellbeing of employees must, therefore, be continuing and flexible.

Helping a company’s workforce to cope in the economic slowdown will not only ensure they thrive, but that the company thrives too. **1**