# Strategies for Motivating Employees To Develop Positive Financial Behaviors: An Application of the Transtheoretical Model of Behavior Change©[1,2,3]

"If you spend everything you make, you will never be wealthy," goes the saying. It's true. As today's economic times amply demonstrate, Americans have gone 'round the bend on this one, according to the Federal Reserve Board.[4] Consumers continue to spend it all and then some. Using credit to spend more than one earns makes saving money from current income nearly impossible. As a result, millions are struggling financially and many of those near retirement lack the funds required for a comfortable life.

Financial literacy is knowledge about spending plans, credit management and savings. Lack of good financial literacy behaviors is the major reason employees do not save adequately for retirement. In addition to the rising cost of living (e.g., gasoline, food, mortgage payments), reasons for personal financial struggles include poor financial planning and management practices by consumers. They prove the old adage, 'If you fail to plan, you plan to fail."

The declining financial health of employees has serious bottom-line implications for employers. Employees who do not manage their personal finances typically are less productive and experience higher health care expenses. Many employers recognize these problems but do nothing. Others believe their current retirement plan provider offers a financial education program that successfully changes employees' personal financial behaviors for the better. Unfortunately, this is a false assumption. The Personal Finance Employee Education Foundation tells employers: "If a financial education provider cannot prove their program works, don't hire them or fire them."

A recent study by researchers at the Personal Finance Employee Education Foundation (PFEEF) indicates that even though employees are experiencing stress related to such financial topics as retirement planning, debt management, and budgeting, about half are unwilling to learn more about these stressful topics in order to change their situations.[5]

PFEEF researchers are working to establish best practices for workplace financial program providers. One goal is to help them motivate employees who are not yet ready to take that first step toward a better financial life. The strategies being tested are based on the successful Stages of Behavior Change Model developed and tested by Prochaska and colleagues[6] for more than 30 years. The model can target employees for financial education based on their readiness for change.

Ironically, those individuals most in need of financial education are most likely to avoid it. Simply put, those who are not ready to learn about improving financial practices are not likely to attend financial education seminars or workshops, nor will they participate in online learning. Even if

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2 Xiao, J..J., Prawitz, A.D., Prochaska, J. M., O'Neill, B., Kim, J., & Garman, E. T. (2008). Personal Finance Employee Education Foundation (www.PersonalFinanceFoundation.org).

3 Please cite this paper as follows: **Strategies for Motivating Employees To Develop Positive Financial Behaviors: An Application of the Transtheoretical Model of Behavior Change (2008), Xiao, J.J, Prawitz, A.D., Prochaska, J.M., O'Neill, B,, Kim, J., & Garman, Special publication of the Personal Finance Employee Education Foundation, pp. 1-8 (http://www.PersonalFinanceFoundation.org).**

4 Lansing, K. J. (2005). Economic research and data: Spendthrift nation. *Federal Reserve Bank of San Francisco.* Retrieved October 1, 2008, from http://www.frbst.org/publications/economics/letter/2005/el2005-30.html

5 Prawitz, A. D., Shatwell, P., Haynes, G., Hanson, K. C., Hanson, E. W., O'Neill, B., & Garman, E. T. (2007). Lifestyle risk factors, health status, and financial distress: Framing interventions using the Transtheoretical Model of Change. *Proceedings of the Association for Financial Counseling and Planning Education, 25*, 153-161.

6 Prochaska, J. O., Norcross, J. C., & DiClemente, C. C. (1994). *Changing for good.* NY: Avon Books.

they do become somewhat engaged, they are not yet ready to put the strategies learned into practice in their lives.

The essence of the Transtheoretical Model of Behavior Change (TTM®) is to identify each person's stage of readiness for change, and to implement strategies (called processes) specific to that stage. For example, those in the Precontemplation stage (not planning to change within the next 6 months) are the most difficult to motivate, as the progress needed is from a state of inertia to a level of willingness to admit there is a problem and to begin thinking about changing. The strategies that help people in this Precontemplation stage of change are quite different from strategies used with those getting ready or ready for and dedicated to changing.[7]

The following strategies are applicable to both financially distressed employees and those with average financial well-being who are in the pre-action stages. The strategies also apply to both overly indebted employees and those with average levels of debt who are in the action stages.

Importantly, even the messages used to motivate employees to attend financial education workshops should be worded differently based on the stage of change of the target audience. What motivates some individuals to attend a seminar often differs from what motivates other employees. PFEEF researchers currently are engaged in research to determine whether advertising messages for financial workshops differ by stage of change, and which messages work better to motivate participation.

## The Stages of Change and Associated Strategies

***Precontemplation stage (I can't or I won't).*** About 40% of people who need to make a behavior change are in the Precontemplation stage. In this stage people may be unaware that a habit is risky, or may know that it's risky, but not admit a personal need to change. Others may be discouraged by previous failures and believe the problem is beyond their control. For those in the Precontemplation stage, an important strategy is consciousness raising, or increasing awareness about both the risks of the problem and the benefits of changing. Another strategy used in this stage is dramatic relief, a form of emotional arousal which can create enough anxiety to motivate people to make changes. Such emotional experiences can be wake-up calls about where the problematic behavior is leading – to bankruptcy, divorce, foreclosure, etc.

***Contemplation stage (I may).*** Individuals in this stage are more likely to acknowledge that they have a problem and start intending to solve it. Many Contemplators have indefinite plans to take action within six months or so. However, many get stalled because they fear the costs of change. To help people move forward, one strategy is to help convince them that the benefits of

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[7] A co-author of this paper is Dr. Janice M. Prochaska, President, Pro-Change Behavior Systems (http://www.prochange.com). Pro-Change creates individually tailored behavior change programs based on research and proven behavior change science. With funding from the National Institutes of Health (NIH) and private industry, and based on over 30 years of research, their programs have achieved unprecedented impacts with entire at-risk populations—from those not thinking about changing, to those actively maintaining a new behavior. One of the originators of the Transtheoretical Model of Change is Dr. J. O. Prochaska, who was named as one of the five most influential authors in Psychology by the Institute for Scientific Information and the American Psychological Society, Dr. Prochaska is author of more than 300 papers on behavior change for health promotion and disease prevention. He has served as Principal Investigator on over $60 million in research grants on the prevention of cancer and other chronic diseases and has received numerous honors, including major awards from the American Psychological Association, the Society for Prospective Medicine, and Harvard University. He was the first psychologist to win a Medal of Honor for Clinical Research from the American Cancer Society, The current paper applies the strategies of Transtheoretical Model of Change toward motivating changes in the personal financial behaviors of adults.

changing outweigh the costs. Other strategies for Contemplators include self-reevaluation, which involves encouraging them to imagine the kind of people they would be once they have changed. Environmental reevaluation, a third strategy useful in this stage, helps people assess how the problem behavior is affecting others. People in this stage may still sound like this: "I know I need to stop unnecessary purchases, but I just don't know how I would ever do it. Every time I try, I seem to fail. I just don't know." They are not yet ready to take action, so people in the Contemplation stage are considered to be in a stage of "pre-action."[8]

***Preparation stage (I will).*** Most people in the Preparation stage are intending to make a behavior change within 30 days. Strategies used in the Preparation stage include encouraging people to make a commitment to change and to take some small steps to build confidence. Another important strategy is empowering people to make an action plan, which includes writing down the plan, making a public commitment to change, setting a date for change, and lining up supporters for encouragement and help in making the change. People in this stage may sound like this: "I am going to cut up my credit cards;" "I am going to see a credit counselor this week;" "I am avoiding shopping online."

***Action stage (I am).*** In the action stage, people are taking overt action to change. Once people enter this stage, most need to continue focusing on the problem behavior for at least six months. People in the Action stage benefit from both cognitive and behavioral strategies. Cognitive strategies might include a technique such as positive thinking, while behavioral strategies represent overt purposeful behavior changes. These include establishing rewards to reinforce efforts (reinforcement management), substituting healthy new behaviors for problematic ones (counterconditioning), changing the environment to prompt change efforts and avoiding cues that trigger the problematic behavior (stimulus control), and getting support from others (helping relationships).

**Maintenance stage (I still am).** – Change doesn't end with the Action stage, for change is an ongoing process. People usually must work to maintain the gains achieved in the previous stages, and may struggle to prevent relapses. Strategies that are supportive in the Maintenance stage are continuation of the substitution of new behaviors for problematic ones (counterconditioning), maintaining changes in the environment to prompt change efforts (stimulus control), and having a plan in place to cope with setbacks.

***For all stages***: Social liberation is an effective strategy for encouraging positive behavior change at all stages. This strategy helps people realize that the social norms are changing in the direction of supporting the positive behavior change. Realizing that appropriate personal financial management is socially desirable and contributes to the well-being of society helps keep employees on track.

## A Step-By-Step Approach

The Transtheoretical Model of Behavior Change promotes the development of desirable behaviors step-by-step, a method shown to be effective in empowering lasting, positive change. As employees move through the stages of change, they will benefit from this approach, and feel more confident as they change undesirable behaviors and develop more positive financial management strategies. While employees may experience lapses and backslide to a previous stage, it is rare for a person who has begun the process to revert all the way back to the Precontemplation stage. That is, while missteps may occur, employees can continue to make

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[8] Xiao, J. J., Newman, B. M., Prochaska, J. M., Leon, B., Bassett, R. L., & Johnson, J. L. (2004). Applying the Transtheoretical Model of Change to consumer debt behavior. *Financial Counseling and Planning, 15*(2), 89-100.

progress. Examples follow that illustrate research-based strategies found to work at different stages of change for those who are struggling with financial problems, like budgeting and paying down debt, and challenges, such as saving for retirement.

### Examples of Behavior Change Strategies by Stage of Change

The following examples suggest how strategies can be used to empower financially distressed employees at various stages of behavior change related to personal financial practices. Similar messages to encourage positive change for the achievement of financial goals can be developed based on these examples.

| **Stage of Change** | **Change Strategy** | **Example** |
|---|---|---|
| Precontemplation | *Consciousness raising:* Finding and learning new facts, ideas, and tips that support the positive behavior change | Provide employees with articles on the importance of reducing debt, having a savings plan, budgeting, etc. Information about the consequences of continuing the problematic behavior is helpful also.<br><br>Raise the pros of reducing debt and having a savings plan, e.g. feeling more hopeful about the future, being rid of bill collectors, building a positive credit history, improved sleep, etc. |
| | *Dramatic relief:* Experiencing the negative emotions that go along with inappropriate financial practices | Use dramatic personal stories with harsh negative outcomes to produce emotional responses. For example, a true narrative detailing the experience of a 72-year-old employee still in the workforce (though not wanting to be) because she did not save enough for retirement might motivate some to begin learning about investing for retirement.<br><br>Administer the 8-item Personal Financial Wellness (PFW) scale to measure current level of financial distress. (Employees can determine own levels of financial distress, which may be quite revealing for some.) |

| Stage of Change | Change Strategy | Example |
|---|---|---|
| Contemplation | *Self-reevaluation:* Realizing that the behavior change is an important part of one's identity as a person<br><br>Make the advantages outweigh the disadvantages | *Ask:* “How will you view yourself as a person when you have made progress toward your financial goals?” (A person’s perception of self is tied to past behaviors. This approach helps the financially distressed employee see that one can change for the better and feel good about the positive changes.)<br><br>*Offer:* “You might have to admit that you are overspending, but you’d learn to be more in control of your spending.”<br><br>*Encourage:* “You might feel like you don’t have the energy to plan, but you’d find more energy if you did.”<br><br>*Ask:* “Is using effective methods to get rid of debt really so time consuming?” |
| | *Environmental reevaluation:* Realizing the negative impact of the inappropriate behavior or the positive impact of the improved behaviors on one's proximal social and physical environment | Encourage employees to consider that their families have little financial stability due to their past behaviors, and that when they have developed good financial management practices, their families will enjoy more financial well-being. (Helps employees understand that personal financial choices are affecting loved ones in a negative way.) |
| Preparation | *Self-liberation:* Make a firm commitment to change<br><br>Take small steps to build confidence<br><br>Make an action plan | *Remind:* “Things will not change for the better until you make the commitment to do things differently.” (This approach helps employees realize the ability to change comes from within and promotes proactive movement toward goals.)<br><br>*Examples to offer:*<br>“Be mindful of the debt you already have incurred.”<br>“Pay attention to the minimum required each month on your credit card.”<br>“Plan ways to avoid unnecessary purchasing.”<br><br>*Encourage employees to:*<br>Choose their methods<br>Set a start date<br>Tell others about their commitment<br>Write down the plan |

| Stage of Change | Change Strategy | Example |
|---|---|---|
| Action/ | *Reinforcement management:* Increasing the rewards for the positive behavior change.<br><br>Decreasing the rewards of inappropriate behaviors | *Encourage:* Create opportunities to reward yourself for making progress toward your financial goal (e.g., having friends over for a potluck dinner). Rewards should not involve unnecessary spending, and certainly not financial "splurging."<br><br>*Suggest:* Return unneeded charged purchases to the store. (If the reward is to possess something new, then a return of the purchase likely would serve to decrease the reward.) |
| | *Helping relationships:* Seeking and using social support for positive behavior change | Encourage employees to enlist family members as their support group for making changes in financial behaviors. Have them designate a supportive person to help them keep track; the more transparent the behaviors, the less likely they are to slip up. (If family members understand the end goal and are part of the planning process, they are more likely to buy into and support the positive changes.) |
| | *Counterconditioning:* Substituting positive alternative behaviors and cognitions for the inappropriate behaviors | Check out books from the library rather than buying from bookstores or online; try shopping at resale shops instead of the mall; have funds diverted from current income to a retirement fund before paycheck is issued; plan for future large purchases by diverting current income each pay period to a savings account set up for this purchase. |
| | *Stimulus control:*<br>Removing cues to engage in the inappropriate behavior.<br><br>Adding reminders to engage in positive behaviors. | Refrain from tuning in to the shopping channel; leave credit cards at home when you go shopping.<br><br>Keep a chart of debts being reduced and goals being met; make a shopping list before you leave for the store; take advantage of employee-sponsored financial education courses. |

| Stage of Change | Change Strategy | Example |
|---|---|---|
| Maintenance | Cope with setbacks<br><br><br><br><br><br><br><br><br><br>Plan ahead for challenging situations | *Encourage:*<br>Move quickly back to better behavior. Learn from your setbacks.<br><br>Maintain the image of the person you want to be.<br><br>Tell yourself you have what it takes to get back on track.<br><br>Make sure employees have a plan for what to do to handle tempting situations effectively, e.g. holidays, hearing about a big sale, stressful times. |
| All stages | *Social liberation:* Realizing that the social norms are changing in the direction of supporting the healthy behavior change | Remind employees that reducing their indebtedness increases the well-being of not only their families but also society as a whole. (Realizing that being able to finance one's own retirement reduces the burden to society is motivational for some.) |

We encourage you to use the information provided on stages of change to assist employees in changing problematic and challenging financial behaviors. Such changes will help them move toward increasing financial success. If you have effective messages to encourage employees to make positive changes in their financial behaviors, please share with us. We will post your ideas on the PFEEF website with an acknowledgment of your contribution.

PFEEF encourages the use of its valid and reliable 8-question Personal Financial Wellness (PFW) scale to benchmark the financial health of employees, particularly before and after commencement or expansion of a workplace financial program. In addition, PFEEF conducts return-on-investment (ROI) analyses to project and prove the value of quality workplace financial programs.

## PFEEF Can Help Improve Employee Financial Communications

Researchers at PFEEF have published a number of articles on the outcomes of improving financial management behaviors; most are accessible through our website (www.Personal FinanceFoundation.org). PFEEF also has created the valid and reliable Personal Financial Wellness (PFW) scale to measure financial distress/financial well-being of employees. Use of the scale is free with permission--see the PFEEF website for details. Fee-based consulting on applying the Stages of Change Model in the context of your company environment to improve employees' financial well-being also is available. For details, please contact PFEEF, a non-profit organization.