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THE EFFECT OF FINANCIAL STRESS AND COPING MECHANISMS ON EMPLOYEE PERFORMANCE: A LITERATURE REVIEW

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A R T I C L E I N F O

Keywords: *financial stress, financial literacy, coping strategy, job performance, employee well-being*

Kata Kunci: stress keuangan, literasi keuangan, strategi koping, kinerja, kesejahteraan karyawan

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Abstract. *Financial stress has a significant impact on employee well-being and performance, likely affecting productivity, engagement, and attendance. In Indonesia, economic instability and low financial literacy are the leading causes of these issues. Evidence suggests that financial literacy fosters adaptive coping strategies, particularly in budgeting and financial planning, alleviating stress and sustaining optimal performance. Coping mechanisms act as mediators and moderators, influencing the relationship between financial stress and job performance. Cultural factors further shape coping effectiveness in Indonesian workplaces. This review highlights the critical role of coping in mitigating financial stress and identifies gaps in longitudinal research, cultural integration, and organisational interventions. The findings underscore the need for culturally sensitive financial programs that combine literacy, social support, and continuous training and empowerment to enhance sustainable employee performance.*

Abstrak. *Stres dalam hal keuangan merupakan hal yang secara nyata mempengaruhi kesejahtraan dan kinerja karyawan, yang tentunya turut mempengaruhi produktivitas, kehadiran dan kerja sama dengan pihak lain. Di Indonesia, tantangan ini turut dipengaruhi oleh ketidakstabilan ekonomi dan rendahnya literasi keuangan. Bukti menunjukkan bahwa literasi keuangan mendorong strategi koping dalam menghadapi permasalahan atau stress, khususnya dalam hal perencanaan anggaran dan keuangan, yang diharapkan akan membantu mengurangi stres serta mempertahankan kinerja. Mekanisme koping berfungsi sebagai mediator maupun moderator, membentuk sejauh mana stres keuangan memengaruhi hasil kerja. Faktor budaya juga turut memengaruhi efektivitas koping di tempat kerja Indonesia. Kajian ini menekankan peran utama melakukan koping dalam upaya meredam dampak stres keuangan. Temuan ini menegaskan pentingnya program kesejahteraan finansial yang diselaraskan dengan terhadap budaya serta mengintegrasikan literasi keuangan, dukungan sosial diikuti dengan pelatihan dan pemberdayaan berkelanjutan guna memperkuat daya tahan karyawan dan mendorong kinerja yang lebih baik.*

INTRODUCTION

Financial stress is a problem that affects individual well-being and organisational outcomes, in terms of employees' productivity, engagement, and absenteeism (Sabri, Wijekoon, & Rahim, 2020). In Indonesia, this problem is determined by socio-economic challenges and low financial literacy. Difficulties in managing personal finances can lead to imbalanced cognitive functioning and compromised job performance. Financial literacy, which encompasses budgeting, saving, debt management, and financial planning (Frees, Gangal, & Shaviro, 2024), is crucial for mitigating financial stress and facilitating effective coping mechanisms. Employees with higher financial literacy are more likely to make informed decisions and employ proactive coping strategies, resulting in reduced stress and an improved workplace experience.

The coping mechanisms employees employ in order to manage financial challenges are central to regulate the effects of financial stress. Coping mechanisms refer to individuals' cognitive and behavioural strategies to handle stressors, ranging from problem-focused approaches, such as financial planning and seeking assistance, to emotion-focused strategies, including avoidance or emotional regulation (Carver et al., 2020). Research has shown that the nature and effectiveness of these coping strategies significantly influence the extent to which financial stress translates into impaired or sustained job performance. Therefore, exploring how various coping mechanisms mediate or moderate the relationship between financial stress and employee outcomes is essential for theory and practice.

While workplace stress has been widely studied, the specific effects of financial stress and coping mechanisms on employee performance across different occupations remain unknown. This study seeks to address this gap by analysing the direct impact of financial stress on their work performance and the effect of various coping strategies as moderators or mediators. This research aims to provide practical insights for human resource management and organizational policy to improve employee well-being and productivity by integrating theoretical models and empirical evidence.

LITERATURE REVIEW

1. Relationship Between Financial Stress and Employee Performance

Financial stress is increasingly recognised as a critical factor affecting employee well-being and job performance. Studies have consistently demonstrated that employees with high financial stress experience lower productivity, increased absenteeism, and reduced engagement (Kim & Garman, 2020; O'Neill et al., 2022). Financial worries is a cause that distract employees from their work tasks, unbalanced cognitive functioning, and lead to emotional exhaustion and decreased job performance (Wazirman et al., 2024). In Indonesia, financial stress is particularly caused by the economic fluctuations and income inequality prevalent in many sectors, intensifying the pressure on employees to manage limited resources effectively (Lestari et al., 2025).

Research within the Indonesian context reveals that financial stress affects employees' work output and mental health, which also affects performance outcomes. For example, Wazirman et al. (2024) found that Indonesian workers facing financial stress reported elevated anxiety and depressive symptoms, which correlated with lower task performance and decreased organisational commitment. This psychological condition often leads to presenteeism, where employees are physically present but mentally disengaged, causing hidden problems for the organizations. Consequently, understanding financial stress as a multidimensional issue impacting both psychological and physical health is essential for human resource management in Indonesia.

Moreover, financial stress among micro, small, and medium enterprise (MSME) workers and owners in Indonesia has gained attention, especially as the COVID-19 pandemic influenced economic instability. Lestari et al. (2025) reported that MSME owners experiencing financial stress suffered from emotional exhaustion, negatively affecting their business operations and employee management. These findings indicate that financial stress can affect individual and organisational performance, emphasising the need for targeted support mechanisms to mitigate its effects and sustain workforce productivity.

Frees et al. (2024) further support the impact of financial literacy interventions, which provide quantitative evidence that participation in financial education courses improves employees' financial health, including better debt management and savings accumulation. Such findings advocate for organizational financial wellness programs to strengthen employee resilience to financial challenges. In parallel, Daadmehr (2024) introduces the concept of financial resilience, emphasising that employees with greater financial literacy and coping ability demonstrate enhanced ability to withstand economic shocks, thereby sustaining performance and workplace sustainability. This composite resilience framework highlights the mediating role of coping strategies in transforming financial knowledge into improved job outcomes. Moreover, the COVID-19 pandemic intensified financial stress globally, and Indonesian employees adapted differents coping strategies by seeking social support to engaging in financial planning to manage this heightened pressure. These culturally based studies highlight the need for financial literacy and coping mechanism skills programs in line with the conditions of local economic and social realities.

2. Coping Mechanisms for Managing Financial Stress

Sabri et al. (2020) empirically demonstrate that employees with better financial literacy adopt more problem-focused coping mechanisms, such as detailed budgeting and providing and seeking financial advice, which alleviate financial obstacles and improve psychological well-being. Conversely, employees with insufficient financial knowledge are likely to experience emotion-focused or maladaptive coping, such as avoidance or denial, which can intensify stress and negatively affect performance (Britt, Mendiola, Schink, Tibbetts, & Jones, 2016). These findings align with the Indonesian context. Employees employ diverse coping mechanisms to address financial stress's psychological and practical challenges. The literature categorises coping ability as either problem-focused, which targets the source of stress, or emotion-focused, which regulates emotional responses (Carver et al., 2020). Problem-focused coping includes budgeting, seeking financial advice, or upskilling to earn income, while emotion-focused coping involves using social support or mindfulness practices to alleviate anxiety (Mardiana et al., 2023). Understanding these strategies is essential, as coping mechanisms may vary according to context and individual characteristics.

In Indonesia, studies highlight the cultural and socio-economic factors influencing coping choices. Mardiana et al. (2023) observed that Indonesian employees often rely on social networks, such as family and community groups, as a key source of emotional support during financial difficulties. This aligns with the cultural orientation prevalent in Indonesian society, where social harmony and group interdependence are highly valued. Additionally, religious coping, such as prayer and faith-based community support, has been identified as a significant emotional coping strategy among Indonesian workers. These culturally specific forms of coping are important to consider when designing interventions to assist employees in managing financial stress.

While problem-focused and emotion-focused coping mechanisms are used, their effectiveness can differ significantly. Research shows that problem-focused coping tends to result in better psychological outcomes and sustained job performance because it targets the root causes of financial stress. Conversely, emotion-focused coping, while helpful in the short term, may lead to avoidance behaviors or denial if overused, potentially exacerbating stress and impairing work performance (Carver et al., 2020). Therefore, interventions encouraging adaptive coping strategies that balance problem resolution and emotional regulation are vital to supporting employees facing financial stress.

3. Impact of Coping Strategies on Employee Performance

Coping mechanisms strategies are crucial in determining how financial stress influences employee performance outcomes such as productivity, engagement, and absenteeism. Employees who effectively employ adaptive coping strategies tend to maintain higher levels of concentration and motivation despite financial difficulties (Kim & Garman, 2020). For example, problem-solving and proactive coping enable employees to manage stressors, reduce cognitive load, and preserve work quality (Carver et al., 2020). In contrast, maladaptive coping strategies, such as avoidance, substance use, or excessive denial, can lead to burnout, decreased job satisfaction, and ultimately, lower performance.

Indonesian research similarly underscores the critical role of coping in buffering financial stress. Mardiana et al. (2023) found that employees who actively engaged in financial planning and sought social support were more resilient, showing better attendance and engagement levels. Meanwhile, employees relying heavily on emotional venting without problem-solving reported increased fatigue and absenteeism. These findings indicate that coping mechanisms influence psychological well-being and tangible workplace behaviours, emphasising the need for organisations to support healthy coping mechanisms practices.

Furthermore, coping strategies may influence long-term employee outcomes beyond immediate performance metrics. For instance, Lestari et al. (2025) noted that coping approaches that reduce emotional exhaustion among MSME owners helped sustain business viability and employee morale during economic hardship. This suggests that fostering effective coping can have a systemic impact on organisational resilience and productivity. Human resource management can leverage this insight by integrating financial wellness programs, counseling, and resilience training tailored to employees' coping needs.

4. Moderating and Mediating Roles of Coping Mechanisms

Coping mechanisms can function as moderators and mediators in the relationship among financial stress and employee performance. As moderators, coping strategies influence the level of financial stress's impact on performance. As mediators, coping strategies explain how financial stress translates into performance outcomes. Lestari et al. (2025) demonstrated that financial anxiety led to emotional exhaustion, reducing business performance among MSME workers. Coping strategies that mitigate emotional exhaustion, such as mindfulness or social support, serve as key mechanisms to attenuate the negative effects of financial stress. This mediating role highlights the psychological pathways underlying the financial stress-performance link and offers targets for intervention.

Theoretical Framework

Conservation of Resources (COR) Theory

The Conservation of Resources (COR) theory, introduced by Hobfoll (1989), provides a foundational framework for understanding how financial stress affects employees and the role of coping mechanisms in mitigating its impact. COR theory explains that individuals strive to obtain, retain, and protect valuable resources, including financial assets, psychological well-being, and social support. Financial stress is conceptualised as a threat or actual loss of these resources, which can trigger stress responses that impair work performance (Hobfoll, 1989). This theory also highlights the importance of coping strategies as resource management processes. Coping mechanisms can either prevent further loss or facilitate benefit, thus serving as crucial buffers against the detrimental effects of financial stress. Problem-focused coping, for example, can be seen as a strategy to actively recover lost financial or personal resources through budgeting or skill development, while emotion-focused coping helps preserve psychological resources by managing distress (Carver et al., 2020; Mardiana et al., 2023). COR theory's emphasis on resource dynamics makes it particularly useful in explaining variations in employee performance outcomes in the context of financial stress.

Transactional Model of Stress and Coping

The Transactional Model of Stress and Coping developed by Lazarus and Folkman (1984) complements COR theory by focusing on individuals' cognitive appraisal processes and coping responses when faced with financial difficulties. According to this model, stress arises when individuals perceive a discrepancy between the demands placed on them (financial obligations) and their coping resources. The primary appraisal evaluates whether financial stress poses a threat or challenge, while the secondary appraisal assesses one's ability to manage or cope with the stressor (Lazarus & Folkman, 1984).

Coping is conceptualised as the cognitive and behavioural efforts to manage the demands, classified into problem-focused and emotion-focused strategies (Carver et al., 2020). The model explains how effective coping strategies can reduce psychological distress and sustain or improve employee performance. Indonesian studies have demonstrated that employees' understanding of financial stress and culturally influenced coping responses (e.g., social and religious coping) shape their psychological well-being and work outcomes.

Job Demands-Resources (JD-R) Model

The Job Demands-Resources (JD-R) model (Demerouti et al., 2001) offers an organisational perspective by emphasising the balance between job demands and resources in influencing employee well-being and performance. Financial stress can be conceptualised as a significant personal demand that drains employees' physical and psychological resources, reducing job engagement and productivity (Wazirman et al., 2024). The JD-R model asserts that the availability of resources—such as social support, coping skills, and organisational interventions—can buffer the adverse effects of demands on outcomes like absenteeism and turnover.

This framework aligns with findings from Indonesian research where financial stress acted as a problem and negatively impacted employees, but coping mechanism strategies and organisational support functioned as resources mitigating adverse outcomes (Mardiana et al., 2023; Lestari et al., 2025). By integrating the JD-R model with COR and Transactional Stress theories, this research can better explain how financial stress translates into performance decrements and how resource-enhancing coping mechanisms maintain employee productivity in financially stressful environments.

Integration and Implications for Research

These three theoretical perspectives provide a comprehensive framework for understanding the relationship between financial stress, coping mechanisms, and employee performance. COR theory elucidates the resource dynamics underpinning stress and coping, the Transactional Model explains individual cognitive appraisal and coping processes, and the JD-R model situates these within an organisational context. This integrated framework guides the literature review and empirical investigation by highlighting key variables and their relationships, and understanding the importance of culturally relevant coping interventions to enhance employee resilience and performance in Indonesia.

METHODOLOGY

Research Design

This study employs a qualitative literature review methodology to synthesise and analyse previous research on the relationship between financial stress, coping mechanisms, and employee performance in Indonesia. The qualitative approach is suitable for exploring complex phenomena and understanding the underlying mechanisms and contextual factors influencing employee experiences and outcomes.

Data Collection

The literature based on academic databases focused on Indonesian employees or organisations, which examined the impact of financial stress on employee performance and the coping mechanisms and strategies employed.

RESULTS AND DISCUSSION

Results of the Literature Review

The relationship between financial stress and employee performance has been widely documented in various industries and cultural contexts. Studies indicate that financial stress contributes to lower productivity, higher absenteeism, and higher employee turnover intentions (Kim & Garman, 2003). In the Indonesian context, Wazirman et al. (2024) found that financial stress affects individual psychological well-being and directly correlates with diminishing job performance in MSMEs.

Coping mechanisms strategies are important strategies and decisions in shaping how financial stress influences employee performance. The literature categorises coping into problem-focused and emotion-focused strategies (Carver et al., 2020). Problem-focused coping, including budgeting, seeking additional income, and financial planning, is generally associated with better performance and reduced psychological distress (Mardiana et al., 2023). In contrast, maladaptive coping such as avoidance or substance use can exacerbate stress and impair workplace functioning. Moreover, culturally specific coping strategies in Indonesia, including religious practices and reliance on social networks, have provided significant emotional support, solving the negative impact of financial stress. These culturally embedded strategies highlight the need for implementation of contextualized coping mechanisms in various workforces.

Financial literacy emerges as a critical facilitator of adaptive coping. Employees with better financial literacy are better equipped to practice effective problem-focused coping strategies, thereby mitigating financial stress and enhancing work performance (Lestari et al., 2025). Financial literacy programs that strengthen employees' financial knowledge and understanding have been associated with reduced financial anxiety and improved organisational achievement (Wazirman et al., 2024). Additionally, organisations integrating financial education with psychosocial support result in better employee acceptance and sustained productivity. This coping and financial literacy determine the importance of comprehensive organisational interventions.

Research Gaps

Along with the findings, the literature shows some gaps. Firstly, most research relies on cross-sectional quantitative designs, limiting causal inferences and failing to capture the dynamic nature of financial stress and coping over time. There are a few results of longitudinal studies, particularly those employing qualitative or mixed-methods approaches, which could provide deeper insights into employees' processes in coping mechanisms strategies and their long-term effects on performance.

Secondly, while coping mechanisms strategies have been extensively classified, the interaction between financial literacy and culturally specific coping mechanisms remains undefined or unclear. For example, few studies examine how Indonesian employees integrate financial knowledge with religious or social coping strategies. This condition becomes an obstacle to the development of specific interventions that reflect individual competencies and cultural realities.

Thirdly, organisational factors such as workplace culture, leadership support, and human resource policies are insufficient to examine and solve problems related to employees' financial coping mechanisms. Recent studies overlook how organisational environments facilitate or even hide access to coping resources, particularly in small and medium enterprises where financial stress might be an issue that affects the whole organisation (Lestari et al., 2025). Research is needed to understand how firms can effectively embed financial literacy and support their human resource management environment.

Lastly, limited research focuses on vulnerable or marginal employee groups, including contract workers, women, and lower-income employees, who may face disproportionate financial stress and need immediate coping strategies. Further deep research in these groups is essential for developing proper and effective strategies that address a diverse workforce environment.

Discussion

This review confirms the importance of coping mechanisms in mitigating the relationship between financial stress and employee performance. The findings are in line with theoretical frameworks such as the Conservation of Resources theory (Hobfoll, 1989) and the Transactional Model of Stress and Coping (Lazarus & Folkman, 1984), which emphasise that employees' ability to regulate and manage internal and external resources determines their actions and decisions in response to stress. Financial literacy empowers employees to engage in adaptive problem-focused coping as an internal resource, thereby preserving valuable psychological and financial resources that support their job performance (Carver et al., 2020; Lestari et al., 2025).

The cultural dimension of coping in Indonesia has a unique perspective, highlighting how social and religious practices help them to cope and conduct formal financial literacy efforts. These findings indicate that financial literacy programs should be culturally sensitive, incorporating community and faith-based support systems to maximise societal impact. Organisations that understand, recognise, and practice cultural coping strategies aligned with financial education are better positioned to support employee well-being.

Moreover, the Job Demands-Resources (JD-R) model (Demerouti et al., 2001) offers a valuable perspective to understand how organisational resources interact with individual coping capacities and capabilities. The availability of social support, flexible work arrangements, and targeted human resource interventions could minimise the adverse effects of financial stress. However, research suggests that resources are often inadequate or unevenly distributed, especially in MSMEs, which need attention for policy and managerial rules and decisions (Wazirman et al., 2024; Lestari et al., 2025).

In conclusion, this review highlights the importance of applying coping mechanisms strategies in mediating the impact of financial stress on employee performance, with financial literacy emerging as a fundamental element that enables them to cope with stress. Integrating financial education and culturally sensitive support within organisational frameworks is essential to support and improve employees' capacity to manage financial challenges. Such initiatives contribute to individual well-being and support overall organisational productivity and performance. Given the persistent and changing nature of financial stress, which may lead to greater financial challenges in the workforce, further research is needed to deepen our understanding of how to support workers from diverse backgrounds, cultures, and industries.

Recommendations

Based on the findings and identified research gaps, several recommendations are proposed for researchers, practitioners, and organizations:

For Future Research:

Future researchers may focus on two aspects, first, the influence of organisational culture, human resource policies, and workplace support systems on employees' coping mechanisms, strategies, and effectiveness, particularly within Indonesian cultural contexts. Second, we should focus on vulnerable employee subgroups, such as contract workers, women, and low-income employees, to understand their experiences and develop a proper solution for those subgroups.

For Policymakers and Industry Leaders:

Policymakers and/or industry leaders should support policies that improve job security and fair compensation to reduce financial stress among workers, particularly in vulnerable sectors such as MSMEs, to achieve organisational success.

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