

**DISPUTE RESOLUTION CENTER OF YAKIMA AND KITTITAS COUNTIES
Yakima, Washington**

WORKPLACE CONFLICT AND YOUR BUSINESS

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2012**

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Workplace conflict and your business.

Improving your business's bottom line

INTRODUCTION

*Unresolved conflict represents the largest reducible cost in many businesses, yet it remains largely unrecognized.*¹

Workplace conflict: what is it, what does it cost our business and how can we deal with it effectively?

These are some questions the Dispute Resolution Center of Yakima and Kittitas Counties would like to help you answer. We know from our research that the costs of unresolved conflict in the workplace can be very high. These costs come in the form of lost productivity as managers attempt to address conflict, employees skip work, are sick, work less effectively or decide to take their skills elsewhere in response to the conflict. Other costs come in the form of lost customers/business and litigation costs from employment disputes. As noted above, the costs of unresolved workplace conflict can be the largest reducible cost for many businesses. We want to help you in reducing those costs.

Over the course of 4 months recently, the Dispute Resolution Center has researched the literature on work place conflict, designed training for businesses and looked at how our mediation, facilitation and training services can help area businesses be more productive, efficient and enjoyable places to work. As part of that research, we have compiled the following statistics and information.

CONFLICT STATISTICS

Overall Impact of conflict

- Research shows that 60-80% of all difficulties in organizations stem from strained relationships between employees, not from deficits in individual employee's skill or motivation.²

Lost Productivity caused by conflict

- The typical manager spends 25-40% of his or her time dealing with workplace conflicts (one to two days of every workweek).³
- Fortune 500 senior executives spend 20% of their time in litigation activities.⁴
- In 2008, U.S. employees spent 2.8 hours per week dealing with conflict. This amounts to \$359 billion in paid hours (based on average hourly earnings of \$17.95), and the equivalent of 385 million working days (*nationwide*).⁵

¹ Dana, Daniel (1999), *Measuring the Financial Cost of Organizational Conflict*, MTI Publications; Slaikeu, K. and Hasson, R (1998), *Controlling the Cost of Conflict*, Jossey-Bass Publication.

² Dana, Daniel (2005): *Managing Differences: How to Build Better Relationships at Work and Home*, 4th edition; Kreisman, Barbara (2002): *Insights into Employee Motivation, Commitment and Retention*.

³ *Washington Business Journal*, May 2005.

⁴ Ford, John *Workplace Conflict: Facts and Figures*, www.Mediate.com.

⁵ Lawler, Jennifer (June 10, 2010): *The Real Cost of Workplace Conflict*, www.entrepreneur.com.

- Unresolved conflict significantly increases personal stress levels. The total value of lost work time due to stress is estimated to be over \$1.5 billion annually.⁶
- The number of employees seeking (*Mental Health*) help for work-related conflict has increased (*from*) 23% in 1999 to close to 30% in 2001.⁷

Costs to replace departing employees

- Workplace conflict is a decisive factor in more than 50% of employee departures.⁸
- Ernst & Young reports that the cost of losing and replacing an employee may be as high as 150% of the departing employee's annual salary.⁹

Litigation costs

- More than 50% of employers report being sued by an employee.¹⁰
- Between 1970 and 1989, the general federal civil caseload increased 125%. Employment discrimination cases increased 2,166% for the same period.¹¹
- The national average compensatory award in employment practice liability cases rose from \$133,691 in 1997 to \$250,000 in 2003.¹²
- Unresolved workplace conflict issues can end up in litigation that can cost a company from \$50,000 to \$100,000 in attorney fees and 3 to 5 years to settle.¹³

Benefits of adopting conflict management process

- Organizations adopting conflict resolution processes, like mediation and arbitration, report 50-80% reductions in litigation costs.¹⁴

CAUSES OF WORKPLACE CONFLICT

Conflict is inevitable and conflict in the workplace is not necessarily bad for business. It can engender positive and creative collaborations between employees to complete tasks when managed properly. However, when conflicts between workers escalate, are unresolved or aren't managed appropriately, negative consequences can result for employees and the

⁶ Johnston, Erin, MSW, LCSW: *Workplace Conflict is Expensive* (July 5, 2011), CFR Mediation Blog.

⁷ Warren Shepel: *Workplace Trends Linked to Mental Health Crisis in Canada*, 2002.

⁸ Johnston, Erin, MSW, LCSW: *Workplace Conflict is Expensive* (July 5, 2011), CFR Mediation Blog.

⁹ [www.dhrm.virginia.gov/resources/conferencepresentations/anoverviewofEmployeeDispute Resolution conflict](http://www.dhrm.virginia.gov/resources/conferencepresentations/anoverviewofEmployeeDispute%20Resolution%20conflict)

¹⁰ Society for Human Resource Management survey cited in the *USA Today* article, "Workers Win More Lawsuits, Awards" March 27, 2001.

¹¹ JuryVerdictResearch.com, LRP Publications (2004).

¹² JuryVerdictResearch.com, LRP Publications (2004).

¹³ Taylor, Robin: *Workplace Tiffs Boosting Demand for Mediators*, National Post (March 17, 2003).

¹⁴ Stipanovich, Thomas (2004): *ADR and the "Vanishing Trial": The Growth and Impact of Alternative Dispute Resolution*.

organization if the issue is not handled in a timely and effective manner. These consequences cost businesses a lot of money.

Some triggers that can cause conflict are organizational changes, miscommunication, scarcity of resources, prejudices, values incongruence, personality clashes, workloads, and stress.

A Consulting Psychologists Press (CPP) study found the primary causes of workplace conflict relate to personality clashes, followed by stress and workload. Often the conflict can be via subtle forms of harassment or bullying. These actions can be a systemic problem unknowingly supported by management because employees are not educated to the risks that come with harassment or bullying. Training to address harassment or bullying is often not a priority, especially in small businesses.¹⁵

For a more in depth look at the various costs associated with unresolved conflict, please review Item A in the Appendix, COSTS RELATED TO WORKPLACE CONFLICT.

WHAT HAPPENS IN MANY BUSINESSES RELATED TO WORKPLACE CONFLICT?

Some managers may not have the skills and experience needed to assess a situation and determine an appropriate response. Moreover, this problem may be compounded by inadequate guidelines setting out a policy for progressive sanctions.

Often business owners and managers do not recognize the severity of a workplace conflict until the issue devolves into a resignation or termination. Studies indicated that it is common for managers to prefer that employees take care of their own arguments. Employees often feel that an issue could have been resolved with a better outcome if managers stepped in sooner.

If managers were aware of the different levels of conflict they could determine which way a situation is heading. In progressively more conflictive order, those levels are:

1. Minor disagreements or misunderstandings
2. Open questioning or challenging others
3. Assertive verbal attacks
4. Threats and ultimatums
5. Aggressive physical attacks
6. Overt efforts to destroy the other party¹⁶

Above level three, conversations become dysfunctional and the issue needs to be addressed.

TOOLS TO MEASURE THE COSTS OF CONFLICT

How much does unresolved conflict cost your business? Here's how you can find out.

¹⁵ *Workplace Conflict and How Business Can Harness it to Thrive*, CPP Global Human Capital Report.

¹⁶ Thompson, D.: *The Cost of Conflict* (2008).

The Dana Measure of Financial Cost of Conflict: A widely recognized tool for measuring the cost of conflict for business was created by Daniel Dana and is available to you via Mr. Dana's web site. This online calculator allows you to measure the costs involved with a conflict. The number of employees involved, number of hours per week spent in conflict, number of unscheduled personal days taken, etc., is entered online into the calculator. The Dana calculator has revised formulas based on up-to-date industry averages.

Inquiries for permission to use the Dana conflict cost calculator should be made to dana@mediationworks.com. The web site will ask for your contact information and you likely will receive follow up contact from Mr. Dana or his staff. A photocopy of a sample of some of the input categories is in the Appendix as Item B.

WHAT CAN WE DO ABOUT UNRESOLVED CONFLICT AT OUR BUSINESS?

Now that you understand more about what workplace conflict is, how it affects your employee turn over and the company's bottom line, you'd probably like to do something about it. But what can you do that is cost effective, timely and easy to fit into your work cycle? At the Dispute Resolution Center, we believe that establishing a collaborative conflict management system that utilizes a combination of proactive and reactive resources make the best sense. Proactively, you can train your leadership team, some or all employees in aspects of communication and conflict resolution skills so that the negative aspects of unresolved conflict can be avoided and the creative, positive aspects of conflict can be maximized in day to day operations. Reactively, when conflict arises that threatens your productivity and bottom line, you can utilize mediation and facilitation services to work through the conflict and create positive outcomes. Here is more information on those services and the positive impact they create.

In 1999, nearly 500 large corporations, representing five million employees worldwide, have implemented ADR (Alternative Dispute Resolution) programs. Corporations that have developed collaborative conflict management systems reported significant savings in litigation costs: Brown & Root reported an 80% reduction; Motorola reported a 75% reduction over six years; and NCR reported a 50% reduction in litigation costs, plus a drop in pending lawsuits from 263 in 1984 to 28 in 1993.¹⁷

PROACTIVE RESOURCES: CONFLICT RESOLUTION TRAINING

"Studies show that businesses that invest in conflict management training have a return investment ten times the cost of training."¹⁸ See Appendix Item C for information on a simple method to measure the return on investment of conflict resolution training. At the Dispute Resolution Center, we have designed multiple training modules for businesses. Some of these modules are 3 hours in length (Dealing with Challenging Customers/Clients/Patients, Communication Skills for the Workplace, Negotiations and You), others are 1.5 days (Communication and Conflict Resolution Skills for the Workplace) while our full mediation skills

¹⁷ Slaikeu, K. and Hasson, R.: *Controlling the Costs of Conflict: How to Design a System for your Organization*, (1998).

¹⁸ Keshinen, Kay: CPA, *The Cost of Conflict in the Workplace*.

training is 5 days in length. Generally, we work with company leaders to determine which training modules make the most sense for your needs. (Costs are described in the attached sheet.)

REACTIVE RESOURCES: MEDIATION AND FACILITATION SERVICES

Once conflict has arisen and the negative aspects of it are impacting the business, you can take charge of the situation and address it using mediation or facilitation services. “Voluntary mediation is a process in which parties can choose to discuss their disputes with an impartial third party who assists them in reaching a settlement (Brook 1996). The mediator does not act as a lawyer or negotiator for either party, but seeks to advocate a realistic agreement that is mutually agreeable to both parties (Rudkin 1997). The process is confidential and it promotes ‘compromise, conciliation, and the preservation (restoration)’ of a working relationship between parties (Lait and Johnson 1997). The majority of successful mediation programs resolve almost all disputes, leaving less than 3% for arbitration (Ordover 1997). Nationally, mediation has a success rate of 85% and is currently the fastest growing form of ADR (alternative dispute resolution) (Brook 1996).”¹⁹

A survey of Fortune 1000 general counsel and chief litigators conducted by PricewaterhouseCoopers and Cornell University showed that 87% used mediation at least once within a three-year period and nearly 79% used mediation to resolve employment disputes. Eighty percent of the survey participants said mediation saved time, 89% said it saved money, and 83% agreed that mediation allowed the parties to resolve the dispute themselves. Mediation can be a fair and cost-effective way to resolve workplace disputes privately.²⁰

Through mediation the parties directly involved in the conflict are given the opportunity to attempt to resolve it themselves with the help of a neutral third party. The trained mediator(s) assist the parties in talking about the impact of the conflict, what they want to see happen, and then working together to create resolution to the conflict in ways that work for the employees and businesses. Depending on the nature of the conflict, managers or supervisors may participate along with the employees directly involved.

Facilitation services are similar to mediation services in that a neutral third party is helping people sort out creative, win-win solutions to problems. It differs in that the conflict may not be between individuals, but workgroups, may be more about future goals and directions or may be more diffuse and less clear. The facilitators use many of the same techniques as are used in mediation, helping people listen to others’ perspectives, pulling the positive out of the seeming negative statements, helping the parties understand their common goals and desires and focusing on the future and how to create a solution that works well for the business and its employees.

¹⁹ DeSouza, J.: “Alternative Dispute Resolution: Methods to Address Workplace Conflict in Health Services Organizations,” *Journal of Healthcare Management*, 43(5), 453-66 (1998).

²⁰ The American Arbitration Association, *Resolving Workplace Disputes through Mediation*.

HOW CAN WE WORK WITH THE DISPUTE RESOLUTION CENTER TO PRODUCTIVELY ADDRESS WORKPLACE CONFLICT?

Your business can work with the DRC in one of two ways. You can partner with us to design a collaborative conflict management system which would include training, mediation and facilitation services that you would invest in on a monthly basis (with significant per usage cost savings). The alternative would be to call upon the DRC to provide specific training, mediation and facilitation services on a case by case basis. These services would be available at our usual affordable rates. By taking this approach though, you run the risk of not calling upon our services in a timely enough manner and spending significant funds in unresolved conflict costs. Additionally, if you haven't signed up for the pre-paid, planned approach, we can't guarantee that our services will be available in as timely a manner as you would need.

CONCLUSION

Workplace conflict, when unaddressed and unresolved, can cost your business dearly. Productivity, absenteeism can decline significantly while health care costs due to stress induced illness and injury and lost business or high employee turnover can drain your business's reserves and resources. There are cost effective, timely resources available to assist you in addressing these challenges. The Dispute Resolution Center looks forward to working with you to maximize your business's productivity, workplace effectiveness, employee satisfaction and customer loyalty by managing conflict productively. We can be reached at (509) 453-8949 or 800-853-8949, via e-mail at info@drcyakima.org on the internet at www.drcyakima.org or in person at 303 East D Street, Suite D, Yakima, WA 98901.

RELATED RECOMMENDED READING

Controlling the Costs of Conflict: How to Design a System for Your Organization by Karl A. Slaikeu and Ralph H. Hasson (Jossey-Bass Publications, 1999).

Designing Conflict Management Systems: A Guide to Creating Productive and Healthy Organizations by Cathy A. Costantino and Christina Sickles Merchant (Jossey-Bass Publishers, 1996).

Red Ink Behaviors: Measure the Surprisingly High Cost of Problem Behaviors in Valuable Employees by Jean A. Hollands (Blake/Madsen Publishers, 1997).

The No Asshole Rule: Building a Civilized Workplace and Surviving One That Isn't by Robert I. Sutton (Warner Business Books, 2007).

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- [http://ombuds-blog.blogspot.com/2010/07/new-search-confirms-cost-of....](http://ombuds-blog.blogspot.com/2010/07/new-search-confirms-cost-of...) Accessed on November 11, 2011.
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APPENDIX

ITEM A

COSTS RELATED TO WORKPLACE CONFLICT

In workplaces, unresolved conflict and conflict that is allowed to escalate can have a wide variety of negative impacts on the business. These include damage to customer relations, delays in production, absenteeism, lost productivity, decreased employee engagement, presenteeism, property damage, turnover, increased health insurance costs and lawsuits. Here is a little more detail on each of these potential costs.

Damage to customer relations: Damage to customer relations can be caused by delays in product delivery, confused communications, or inconsistent information.

Delays in production/delivery of product: Unresolved conflicts can result in delays and missed market opportunities. Companies with chronic conflict are often unable to attract and keep good people.

Absenteeism: A CPP study reported that 25% of employees said that avoiding conflict led to sickness or absence from work. Experts suggest that yearly absenteeism should be 3% or lower. The current U.S. annual average is 6%.²¹

Another potential cause of absenteeism is the relationship between employees and their managers. Employees who perceive their managers as “sensitive” missed an estimated 3.7 workdays, whereas employees who perceive their managers as “non-sensitive” missed an estimated 6.7 workdays.²²

Loss of Productivity: “Tension and stress reduce motivation and disturb concentration. A loss of simple productivity of 25% (doing things other than work related activities, such as discussing the dispute, playing computer games, finding reasons to get out of the area) reduces an average work week to fewer than 20 hours....”²³

Employee Engagement: In 2007, Towers Perrin conducted a study of 80,000 employees worldwide. It found that only 21% of employees felt fully engaged with their work and nearly 40% felt disengaged or disenchanting. This negativity directly affected the bottom line. Those companies with poor employee engagement had a 39% annual decline in operating income and 11% decline in earnings growth. Conversely, those companies with an engaged workforce reported a 19% increase in operating income and 26% growth in earnings per share.²⁴

²¹ *Workplace Conflict and How Business Can Harness it to Thrive*, CPP Global Human Capital Report.

²² J.L. MacBriade-King and K. Bachman: *Solutions for the Stressed-out Worker*, The Conference Board of Canada (1999).

²³ Cram, J. A. and MacWilliams, R.K.: *The Cost of Conflict in the Workplace*, Cramby River Consultants.

²⁴ Schwartz, Tony: *The Productivity Paradox: How Sony Pictures Gets More Out of People by Demanding Less.*”

Presenteeism: Presenteeism refers to an employee who “retires on the job”, someone who is physically present but unmotivated and disengaged. This employee may have a lower commitment to his or her job, be dissatisfied with it, and reduce morale in the areas they work.²⁵

Property Damage, Theft, and Sabotage: Studies show a direct correlation between employee conflict and damage and theft of equipment and inventory. Sabotage of work processes and management efforts usually occur when employees are angry at their employer.²⁶

Turnover: “Chronic unresolved conflict acts as a decisive factor in at least 50% of departures. Conflict accounts for up to 90% of involuntary departures with the possible exception of staff reductions due to downsizing and restructuring.”²⁷

Health insurance costs: Depression and high stress have the greatest impact on worker health care costs. In 2005, an estimated \$1.7 billion of work time was lost due to stress. Poor interpersonal relations was cited as a source of stress by 16% of employees.⁶ Disability costs are reported to be 46% higher for workers who felt they were under a lot of stress,²⁸ and the Journal of Occupational Environmental Medicine reported that health expenditures are 50% higher for stressed workers.²⁹

A 2005 survey in the United Kingdom reported that, “78% of managers are suffering from work-related stress, 52% have experienced harassment, 46% have seen an increase in conflict at work.”³⁰ In Canada, the number of employees seeking help for work-related conflict increased from 23% to 30% between 1999 and 2001.³¹

There is also increasing evidence that psychosocial factors found in the work environment play a role in work-related musculoskeletal disorders of the upper back and neck.³²

Lawsuits and Litigation: Unresolved workplace conflict issues can end up in litigation. Costs can range from \$50,000 to \$100,000 in attorney fees and take 3 to 5 years to settle.³³ The national average compensatory award in employment practice liability cases rose from \$133,691 in 1997

²⁵ Mediate.com.

²⁶ Duxbury & Higgins: Work-Life Conflict in Canada in the New Millenium: A Status Report, 2003.

²⁷ Dana, Daniel, The Dana Measure of Financial Cost of Organizational Conflict, 2001.

²⁸ *The Case for Comprehensive Workplace Health Promotion: Making “Cents” of a Good Idea*, The Health Communication, date unknown [online].

²⁹ Mary Corbitt Clark: *The Cost of Stress*, mediate.com.

³⁰ Roffey Park: *Failure to Manage Change Heightens Stress, Harassment and Conflict at work*, January 2005 [online].

³¹ Warren Shepel: *Workplace Trends Linked to Mental Health Crisis in Canada (2002)*.

³² *Musculoskeletal Disorders and Workplace Factors: A Critical Review of Epidemiologic Evidence for Work-Related Musculoskeletal Disorder of the Neck, Upper Extremity, and Lower Back*, National Institute of Occupational Safety and Health (July 1992).

³³ Taylor, Robin: *Workplace Tiffs Boosting Demand for Mediators*, National Post (March 17, 2003).

to \$250,000 in 2003.³⁴ Plus, senior executives at Fortune 500 companies spend about 20% of their time in litigation activities.³⁵

The cost incurred to recruit and train a new employee, plus the lower productivity of a new worker is estimated to cost 1.5 times the employees annual salary.³⁶

Following is a laundry list of turnover costs:³⁷

- Severance costs – voluntary or involuntary
- Benefits costs, compensation, etc.
- Recruitment, staffing cycle time costs
- Training and development
- Lost productivity costs

Soft Costs:

- Morale: People are likely aware of an ongoing conflict, and this awareness can affect morale.
- Decreased customer service.
- Business reputation: Word gets around when people find a great business that values its employees and vice versa.
- Loss of skilled employees: Retaining skilled employees keeps production high and training time to a minimum.³⁸

Absenteeism: The following formula, provided by the U.S. Department of Labor, calculates absenteeism.

Absenteeism Rate = Number of lost working days due to absence/(number of employees) x (number of workdays) x 100.³⁹

³⁴ JuryVerdictResearch.com, LRP Publications (2004).

³⁵ JuryVerdictResearch.com, LRP Publications (2004).

³⁶ Dana, Daniel: The Dana Measure of Financial Cost of Organizational Conflict (2001).

³⁷ Duxbury & Higgins: *Work-Life Conflict in Canada in the New Millennium: A Status Report, 2003.*

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³⁹ Barnes-Slater, Cynthia and Ford, John: *Measuring Conflict: Both the Hidden Costs and Benefits of Conflict Management Interventions.*

ITEM B

Dana measure of conflict costs

ITEM C**MEASURING THE RETURN ON INVESTMENT FOR CONFLICT RESOLUTION TRAINING**

Scenario: The time a manager spends dealing with conflict is noted for a five-day period. The manager's base salary is \$35,000 per annum (excluding benefits and bonus). This manager typically spends 10 hours within a 40-hour workweek dealing with conflicts between employees.

After attending a conflict resolution training that costs the company \$300 per employee, the manager is more effective and only spends 7 hours per week managing employee conflicts. That works out to $\$18 \times 3 \text{ hours} \times 52 \text{ weeks}$ for a productivity increase of \$2,808 per year.

To calculate the return on investment:

ROI = Return on Investment

PI = Performance Improvement

ROI = $\frac{\text{PI} - \text{Cost}}{\text{Cost}}$

$\frac{\$2,800 (\text{PI}) - \$300}{\$300} = 8.36\% \text{ ROI}$

Following is the formula to calculate the payback period for the cost of the conflict resolution training:

Payback Period = $\frac{\text{Cost} \times 52 \text{ weeks}}{\text{PI}}$

$\frac{\$300 \times 52 \text{ weeks}}{\$2,808} = 5.5 \text{ weeks}$ ⁴⁰

⁴⁰ Barnes-Slater, Cynthia and Ford, John: "Measuring Conflict: Both the Hidden Costs and Benefits of Conflict Management Interventions."