



Costs of Conflict

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Ombuds Services for Staff

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## Costs of Conflict

Conflict is considered among the most significant and reducible costs to an organization (Freres, 2013). The costs of conflict are largely unrecognized and frequently go unnoticed. Organizations miss the opportunity to substantially reduce costs because they do not give priority to developing and maintaining effective conflict management. One effective way an organization can manage conflict is to establish and support ombuds services. The Associate Director of the Office of Ombuds Services at UCLA, Thomas Kosakowski, described the impressive cost savings provided by ombuds services in his TedxUCLA talk when he shared the following report by Pacifica Human Communications.

“Pacifica Human Communications, a consulting company that helps set up ADR programs, looked at the benefits of the first year of the ombuds program at The Halliburton Company. Pacifica found a \$20:\$1 return on the investment. It cost Halliburton a little more than a million dollars to set up the program, and the return was nearly 25 million dollars.”

UNM Ombuds Services for Staff has prepared the following report to demonstrate the costs of conflict at UNM and the cost savings that ombuds services provides. Data was gathered from an anonymous survey distributed to UNM employees who visited the Ombuds office in 2016 (Ransom, 2017). A total of 288 employees visited the Ombuds office and 21% of them completed the survey. The survey information illustrates costs of conflict as observed by employees at UNM, reflects potential costs of unmanaged conflict at UNM, and describes what employees at UNM would have done had they not visited with an ombuds. The highlighted survey information is accompanied by respective research findings. An estimated cost analysis specific to UNM is also provided in the context of the cited research and survey responses that were collected.

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## Morale

- 84% of respondents report low morale when experiencing workplace conflict
- 46% report an increase in sickness and absence from work
- 41% experience reduced quality in decision-making

It is estimated that 60%-80% of an organization's performance problems stem from strained relationships between employees and not from deficits in employee competency or skills (Dana, 2012). It is understood that conflict between employees negatively impacts productivity and employee morale. The Gallup Organization estimated about 22 million employees nationwide are actively disengaged at work due to low morale issues resulting in an economic cost of about \$350 billion dollars per year (Fink, 2014). This means a loss of about \$16,000 for each employee that is experiencing low morale. When this research is applied to UNM, it can be calculated that visits to Ombuds Services resulted in a net cost savings of **\$800,000**. This amount is only representative of the 21% of visitors who responded to the survey. If the same

calculations can be assumed for all 288 visitors, then it can be argued that Ombuds Services is directly responsible for saving UNM **\$4 million\***.

*(Calculations: 60 survey respondents x .84 = 50 visitors with low morale visiting Ombuds Services. 50 x 100% of visitors leaving Ombuds Services with higher morale= 500. 500 x \$16,000 = \$800,000 in net cost savings. \$800,000 x 5 = 4,000,000).*

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## Payroll Efficiency

- 67% of respondents experienced personal insult and/or attacks as part of workplace conflict
- 51% have experienced conflict that lead to bullying
- 46% have observed cross-departmental conflict
- 25% have observed conflict that lead to project failure
- 44% would have engaged co-workers by talking to them about the conflict had they not visited with an ombuds

Cost of conflict is evident when considering how productivity is compromised by time spent gossiping, recruiting, retaliating, and navigating office conflict. Research shows that interpersonal conflict at work consumes between 25%-50% of a person's work day (Hahn, 2000). CPP Global Human Capital Inc. found that an average employee spends 2.8 hours every week dealing with workplace conflict. When this research is applied to UNM, it can be argued that approximately **\$19,743,360\*** per year is wasted due to workplace conflict at UNM.

Research has also found that 30%-70% of a manager's time at work involves dealing with employees in conflict (Buss, 2011). It is estimated that manager referrals to Ombuds Services potentially saves UNM up to **\$3,561,600\*\*** in managerial salaries that would be otherwise consumed by workplace conflict. This net savings is compounded when considering the significant amount of a manager's time that is recouped when Ombuds Services is utilized leading to more efficient use of managerial skills that can be focused on strategic planning and project completions. Even more compelling is the discrepancy that exists between the high number of managers who think they successfully handle conflict (31%) compared to almost half of supervisees reporting that their managers do a poor job dealing with conflict (43%) (Hayes, 2008). In contrast, **100%** of UNM employees who responded to the anonymous survey reported that they felt heard at Ombuds Services. **99%** reported gaining new perspective and acquiring useful information after visiting with an ombuds. **100%** of respondents would recommend Ombuds Services to others who are experiencing workplace conflict at UNM.

*\*(Calculations: 2.8 hours x 6,000 UNM employees = 16,800 UNM hours per week spent dealing with conflict. 16,800 hours x 52 work weeks in a year = 873,600 wasted hours per year at UNM. The average UNM salary of \$47,000 divided by 2080 typical work hours per year = \$22.60 per hour. \$22.60 x 873,600 wasted hours = \$19,743,360 per year consumed by conflict in the workplace.)*

*\*\* (Calculations: Assuming 15 employees to 1 manager. 1,700 UNM staff employees divided by 16 = 106 UNM managers. Assuming \$48,000 is the average manager's salary x .7 = \$33,600. 106 x \$33,600 = \$3,561,600)*

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## Employee Retention

- 53% have experienced colleagues leaving UNM due to conflict
- 33% have seen colleagues move to different departments due to conflict
- 11% have witnessed colleagues fired because of conflict
- 34% respondents would have left UNM

The cost of replacing an employee can cost an employer 75% to 150% of the employee's annual salary (Dana, 2012). Approximately 20 respondents were seriously considering leaving UNM because of workplace conflict, but decided to remain at UNM as a direct result of visiting with an ombuds. These retained employees represent a cost savings of **\$188,000** to UNM and can be directly attributed to the UNM Ombuds Services. If the same calculations are applied to all 288 visitors, then it can be argued that Ombuds Services is directly responsible for saving UNM **\$921,200\*\*** simply by retaining UNM employees. This amount becomes even more substantial when considering the previously cited cost savings of employee morale and payroll efficiency.

Research shows that 50% of voluntary employee departures from an organization are due to unmanaged conflict (Buss, 2011). A 2015 report published by HR at UNM stated that UNM lost 1,700 staff employees in three years to voluntary departure (UNM Human Resources, 2015). Assuming an average of 284 staff voluntarily leave UNM every year due to conflict, then an estimated **\$2,669,600\*** is being spent on turnover costs directly related to workplace conflict at UNM every year. It is important to note that the 53% of respondents who have experienced colleagues leaving UNM because of conflict has increased from 35% in a similar survey administered in 2015 (Ransom, 2016).

*\*(Calculations: 1700 employees leaving UNM divided by 3 years = an average of 567 employees voluntarily leaving UNM every year. 50% of 567 = 284 employees that leave UNM every year because of workplace conflict. Assuming total cost for new hires at UNM is 20% of the new hire's salary, and \$47,000 is the average UNM staff salary, then \$47,000 x .2 = \$9,400 is the average cost per new hire at UNM. 284 x \$9,400 average cost per new hire at UNM is \$2,669,600.)*

*\*\* (Calculations: Assuming the average cost per new hire at UNM is \$9,400 x 20 = \$188,000. 288 x .34 = 98 employees who decided to stay. 98 x \$9,400 = \$921,200)*

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## Litigation

- 45% would have taken the issue to another department (HR, OEO, Internal Audit, etc.)
- 33% would have brought the issue to someone outside of UNM

UNM Ombuds Services facilitates and supports appropriate reporting of compliance issues. An essential role of an ombuds is to provide a confidential space for individuals to sort through their next steps. Providing a safe place for private conversations with a neutral ombuds can assist in the development of options for reporting. An ombuds may also refer individuals to specific University offices and resources for further guidance in addressing concerns. It has been observed that having a confidential place for individuals to be informed about resources available to them can mean the difference between getting help and staying silent about their concerns (The White House Task Force to Protect Students From Sexual Assault, 2014). Another function of an ombuds involves the gathering and maintaining of generic data for annual reporting, observation of trends, and for use in other similar purposes. An ombuds intentionally reports information in a confidential and neutral format. That is, the information being reported is general, impersonal, and unattributable. These reports provide the University with an opportunity to respond appropriately to notable concerns and be proactive in addressing conflict early on.

Organizations without ombuds services generally manage conflict strictly through formal processes that take prolonged periods of time such as administrative hearings, formal grievances, or lawsuits. Ombuds Services supplements, but does not replace, formal processes. Organizations utilizing informal conflict resolution services report 50-80% reductions in litigation costs (Stipanowich, 2004). Based on a 2010 report to UNM from the ADR Bureau of New Mexico, UNM's average cost per workplace civil rights claim was about \$43,500 (Lujan, 2010). In the context of the survey responses, it is estimated that Ombuds Services has saved UNM **\$870,000** in potential litigation costs. If we apply the same calculations to the total number of employees that visited Ombuds Services, then Ombuds Services was responsible for saving UNM over **\$4,000,000** in litigation expenses.

*(Calculations:  $60 \times .33 = 19.8$  or 20 employees who would have taken workplace grievances to an external entity.  $20 \times \$43,500 = \$870,000$ .  $288 \times .33 = 95$ .  $95 \times \$43,500 = \$4,132,500$ .)*

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Conflict is inevitable, but many costs of conflict can be avoided. UNM Ombuds Services reduces the human and organizational costs of conflict by providing substantial costs savings to UNM in the areas of payroll efficiency, employee retention, litigation expenses, employee morale, and productivity. The combined savings from these reported areas represent a total cost savings of almost **\$12.5 million\***. It is likely that this savings amount is even higher, but further research and information is needed to assess an accurate cost analysis.

*(Calculations:  $\$4,132,500 + \$921,200 + \$3,561,600 + \$4,000,000 = \$12,482,800$ .)*

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