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The cost of unresolved conflict

Stop complaining

Nicole Cullen

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> Unmanaged conflict is the largest reducible cost in organisations today, and the least recognized.
>
> Dan Dana (2007)

Complaints are not welcomed!

Its not surprising that most organisations view complaints in a negative light and as an unwelcome attack on their performance in delivering products or services. It is counterintuitive to be told that 'complaints should be welcomed' and even more repugnant to be told that 'complaints are a gift'. The simple fact is that complaints are not sought after by organisations and the standard corporate strategy is to reduce, and certainly not to increase, complaint numbers.

Some funds and administrators report receiving very low levels of complaints. While on one hand this may indicate high levels of customer satisfaction, it may on the other indicate that there are low levels of access to and visibility of the complaints system.

Improving products, services and relationships with customers

Underlying the 'complaint is a gift' mentality is the suggestion that the inherent value of a complaint is the underlying message it carries about the organisation's products or services. In other words, complaints are said to provide 'free market research' to the organisation about its products or services. One fund received a huge number of complaints about delays in sending out member statements — here the message is: members expect to receive their statements on time. Another fund noted that many of the complaints made to it related to the time it took to progress death distribution and total and permanent disability (TPD) claims — here the message is: members have expectations of procedural efficiency in claims handling. However, funds don't generally need to analyse complaints data to identify their operational issues, so we go back to the question of why complaints are said to be valuable?

The answer is related to the value that the fund places on customer loyalty and satisfaction. The research shows that the vast majority of dissatisfied customers don't bother to complain. This is generally because of their perception of the time and energy they will have to spend to lodge a complaint. Some dissatisfied customers will take their business elsewhere. The irony is that the research also shows that *satisfied complainants* become greater advocates of the organisation than those *who didn't have a complaint in the first place*. It doesn't take much then, to see that the 'free market research' argument is only just one part of the equation. The value of complaints should be calculated with reference to customer satisfaction, loyalty and market reputation.

Cost of complaints

Few organisations know how much customer complaints actually cost them. The tangible costs are easier to quantify and include the costs of external agencies such as Ombudsmen costs, court costs, compensation payments or the salaries of staff who deal with complaints. Other costs are harder to define and include:

- loss of customer loyalty
- negative word of mouth by staff and customers
- damage to the organisation's reputation
- the cost of gaining new customers.

When there is no clear link between effective complaints handling and the resultant value to the organisation, then it is harder to justify spending money on improving the organisation's complaint handling capacity. Related issues are that the business case for effective conflict management is often not well developed or articulated, there is no clear budget for complaints handling and dispute resolution and associated training for these activities is not a priority. The complaints function is seen as a cost centre (depleting resources) rather than as a profit centre (value adding).

Adding to the challenge is that little has been written on the cost of conflict and there are few tools to assist organisations to make their own assessment.

New research by the Victorian Department of Justice into the ADR industry in Victoria suggests that the financial and emotional costs of unresolved conflict are high. The research results are contained in number of reports issued by the Department which are available online at <www.justice.vic.gov.au>.

Case study — cost of internal conflict

The following case study illustrates the costs of poorly managed internal conflict.

Two receptionists employed by a large superannuation fund had a difference of opinion on the best way to make bookings for the fund's conference rooms which were constantly in high demand. Helen had been with the fund for five years. She thought the old paper-based system which she had established and which had worked well for years was the best. Dianne was a relative newcomer, having joined the fund only six months ago. In her opinion, it was more efficient to use the computer to make conference room bookings. Helen was a conservative and quietly mannered person without good computer skills. Dianne was a loud and talkative person who had excellent computer skills, but a low level of awareness of her impact on

others. One day, a mistake occurred and several conference rooms were double booked. This upset a number of staff members and tensions at reception ran high. Various other incidents subsequently occurred in the workplace that created tension between the two women.

Soon enough, the communications between Helen and Dianne became very icy and their manager, Frank stepped in to intervene. He seemed to favour Dianne and her suggestions for systems improvements. Making matters worse, he made some remarks to Helen that were inappropriate and potentially discriminatory. Helen started to feel sick every time Frank came near the reception area. Both Helen and Dianne started to take sick leave, unable to cope with the stress of working together. Temporary staff were engaged and needed some training. Meanwhile, both receptionists lodged formal complaints against each other for bullying and harassment and Helen lodged a complaint against Frank for discrimination. Both receptionists took up the offer to see a counsellor through the funds' employee assistance program and a psychologist was engaged to make an assessment of Dianne's state of health which was considered to be poor. Other experts were engaged to make a workplace assessment. Ultimately, Helen and Diane and Helen and Frank settled their concerns at two separate mediation sessions at which they agreed on more acceptable ways of working together.

The cost of the dispute

The fund assessed its costs of the dispute as follows:

Temporary staff — total of 13 days (including agency costs)	$2,600
4 counselling sessions	$480
Psychologist	$1,100
Workplace assessment	$1,400
Fees to mediator (2 mediations plus 4 preliminary conferences)	$2,400
Venue hire for 2 mediations	$700
Total	**$8,680**

These costs do not include an allowance for the cost of:

- sick leave payments
- lost productivity of Helen and Dianne
- lost productivity of Frank (while he tried to manage the dispute)
- the impact of the dispute on others in the team
- damage to the fund's reputation (the dispute was obvious to all in the reception area).

How could this cost have been avoided?

What could the fund have done to save or reduce these costs?

- The starting point is the recruiting policy and only hiring people who can match the fund's values and culture.
- Internal training on managing workplace conflict could have helped the parties to manage the issues.
- Next, the issues should have been dealt with sooner rather than later. Unresolved conflict does not generally improve with time.
- Finally, earlier mediation would probably have saved the other costs of counselling, psychological assessment and workplace evaluation and would have meant fewer absentee days.

The costs under the early intervention model would have been less than half:

Internal training on managing workplace conflict	$2,000
Temporary staff — total of 3 days (including agency costs)	$600
Fees to mediator (1 mediation plus 2 preliminary conferences)	$1,200
Venue hire for 1 mediation	$350
Total	**$4,150**

Furthermore, under this model, the workplace training would be likely to have a positive impact on workplace morale and would therefore support the organisation's talent retention strategy.

Using complaints data to your advantage

Complaints data can be used in much the same way as feedback from other sources to improve the products or services being offered. Anecdotally however, while most organisations collect large amounts of complaints data, few appear to analyse the data to its full potential to identify the root causes of systemic issues. Naturally, organisations aim to implement strategies to prevent the underlying causes of complaints. However, when

the problems giving rise to complaints reoccur, the conclusion must be formed that either the wrong causes were treated or alternatively, the implementation efforts were not thorough enough.

Case study — financial benefits of analysis of complaints data

One financial services organisation picked up some systemic issues when analysing its complaints data. A large number of complaints related to insurance claims that had been denied on the grounds of the insured's failure to disclose a pre-existing medical condition. Analysis revealed that when the claims were assessed, there was conflicting evidence about whether the insured had made disclosure of their medical condition or not. The insured members all asserted they had made an oral disclosure to the financial planners and they sought payment of their claim. The financial planners had no record of the disclosures on their file and typically could not recall the conversations with the insured members. The cost of gathering conflicting evidence to assess the claims was becoming excessive. When the claims were denied, there were additional costs associated with dealing with requests for review and complaints about the process.

The organisation was able to eliminate all of its review and complaints handling costs by redesigning its system. A new step in the process was introduced whereby after the application for insurance was made, a separate letter was sent to the insured specifically addressing the issue of whether disclosure of a pre-existing medical condition had been made or not. Since that time, there have been no complaints relating to decisions to deny claims on the basis of non disclosure. If any complaints are received, the organisation will have clear and unequivocal paper work to support its position.

People costs relating to satisfying complaints systems

Much of the complaints literature focuses on the value of the customer and ignores an important stakeholder group, namely employees. With organisations clamouring to attract and retain talent, they need to recognise that it can be disappointing and stressful for staff to work within complaints handling systems which are under-resourced, poorly managed and in circumstances where the commitment from the top to efficient and fair conflict resolution is not really visible. This applies equally to the system for internal grievances, which should also be accessible, transparent and fair.

Case study — huge savings by improving your claims processes

One large Australian employer has recently realized that it can save millions of dollars by improving its process for administering TPD claims. Unfortunately, its ineffective claims process (and that of the superannuation fund administrator) has cost it dearly in the past.

Here's what happened:

An employee 'Bob' suffered an injury in 2003 which rendered him unable to perform his job. He was unable to return to the workplace due to his injuries and he contacted the superannuation fund's administrator to obtain a TPD claim form. The administrator sent him the form and notified the employer and the insurer of the potential for a claim by Bob.

The employer continued to pay Bob's full-time wages and Bob continued to rest in bed at home and occasionally visit his doctor. The administrator did not follow up and ask Bob to complete and return the TPD claim form. What happened next was critical. There was no incentive for Bob to complete the form because the employer continued to pay his full wages while he was at home and furthermore, no-one was asking him to return the completed TPD claim form. Meanwhile, the employer had delegated the responsibility for dealing with the claim to the administrator and did not have a system for reviewing the conduct of the administrator. Not surprisingly, the insurer also took no action as it had not received a claim form.

The employer was bound to continue paying Bob's wages pursuant to the terms of an enterprise bargaining agreement until the TPD claim was finalised.

In May 2006, the fund appointed a new administrator. The new administrator reviewed the file and realized that Bob had never returned to work nor had he lodged a claim form, but he had received three-and-a-half years of full-time wages from the employer. In total, Bob had received $147,000 in wages from the employer — that is, three-and-a-half times his full-time salary of $42,000. What happened then was that Bob was invited to lodge a TPD claim form, the claim was processed and Bob was found by the insurer to be TPD. The insurer paid Bob the claim amount of $127,000.

The first administrator's failure to follow up receipt of the completed claim form cost the employer $147,000 (wages paid to Bob, most of which it would not have been liable for if the TPD claim had been processed at the time the form was requested). In addition, the new administrator and the insurer experienced real challenges in processing the claim, given that the event giving rise to the TPD claim had happened over three years before the claim was processed. There was insufficient medical evidence relating to Bob's medical condition as at the date of ceasing work and the administrator had to seek retrospective reports from doctors and look through old work cover files. Evidence from Bob's manager would have been helpful to the assessment of the claim, but the manager had long since left the employ of the organisation. These problems led to additional costs for the administrator and the insurer in processing the claim, over and above the usual claims handling costs.

The employer has at least 6 similar cases of overpayment of wages on its books. If each were to result in the employer paying $147,000 (as in this case) the total amount of overpayments by the employer would be $882,000, plus the additional costs as a result of late processing of the claims. The employer is also likely to be charged increased insurance premiums as a result of the whole debacle. Incidentally, the employer, which operates from numerous sites across Australia, has estimated that its losses relating to the haphazard and ineffective claims processes amount to millions of dollars.

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Exactly which organisation was responsible for the losses may end up being litigated, which will cost all of the organisations even more in terms of executive time, legal costs and lost reputation. A claim against Bob to recover the wages paid to him for three-and-a-half years would be unlikely, given the negative publicity which would attach due to his TPD status and the poor conduct of the fund administrator.

The case study illustrates the importance of careful review of claims systems and procedures by all organisations involved in the claims process. The cumulative cost of systemic issues which appear to be small at first glance can amount to enormous losses. A 'silo approach' to claims handling is to be avoided.

Prevention is better than cure

Finally, a word on the topic of prevention. No amount of efficient and effective complaints handling can reduce the volume of complaints coming in the door. While all organisations have a lot to gain from efficient complaints management, the key objective is to reduce the number of complaints arising in the first place. One of the best ways to prevent complaints is to conduct root cause analysis (RCA). RCA is a structured process whereby the causes of problems are forensically analysed by a multi-disciplinary team so that problems can be rectified and ultimately prevented.

Some financial services organisations are providing the necessary authority and resources to small internal teams to conduct root cause analysis of problems and anecdotally, there are enormous savings to be had through this type of prevention work.

Practical ways to impact the bottom line through effective claims and complaints handling

There are some excellent tools to assist organisations to improve their complaints handling systems. The Australian Standard on Complaints Handling AS ISO 10,002-2006 lists the guiding principles recommended for effective complaints handling. These include visibility, accessibility, responsiveness, objectivity and a customer focused approach. The Standard also provides tips on designing and managing the complaints system as well as forms and system flowcharts for adaption by organisations. The Standard is accompanied by a Handbook called *The How and Why of Complaints Handling* which includes selection criteria for complaints handling personnel and recommendations for the audit, monitoring and continuous improvement of the complaints system.

Conclusion

A paradigm shift is required to view complaints handling functions as profit centres with potential to increase revenue, rather than as cost centres which deplete the organisation's resources.

Profit generation, cost reduction, customer satisfaction, staff retention, market reputation, stress management and reduction of absenteeism are 'top of mind' for most senior executives. The links between these desirable business outcomes and effective claims and complaints handling systems are beginning to emerge.

Adopting a project approach to the review of systems and procedures is the most effective way forward. Establish a continuous improvement team, establish the goals of the system, review and assess the system and make modifications if need be. Save some energy and resources to throw behind implementation efforts so that your good work at the review and diagnosis stage is not lost before the benefits are realised. ●

Nicole Cullen assists organisations to reduce the incidence and escalation of complaints by designing more effective claims and complaints procedures and by providing mediation services.

For more information, contact <nicolecullen@financialservicescomplaints.com> or call 0402 003 200.

Further reading

The Australian Standard on Complaints Handling AS ISO 10,002-2006 and the accompanying handbook *The How and Why of Complaints Handling*.