

Whitepaper

# THE COST OF CONFLICT

## MEDIATION TRAINING INSTITUTE AT ECKERD COLLEGE

### INTRODUCTION

Conflict is inevitable in organizational life. Most people prefer to avoid it and hope it goes away. Perhaps that is why organizations fail to examine how much conflict costs them. Poorly managed or dysfunctional conflict hurts productivity, escalates out-of-pocket costs, increases risks, degrades decision making, and impedes an organization's ability to achieve strategic goals. In this paper, we examine the cost of conflict in more depth and provide a distinct approach to address this important issue.

### PRODUCTIVITY

Conflict affects the productivity of organizations in four key areas:

- Wasted Time
- Lower Motivation
- Increased Turnover
- Disruptive Restructuring

#### 1. Wasted Time

Although a number of studies have found that managers say that they spend between 20-40% of their time dealing with conflict (Runde and Flanagan, 2012, p. 17), not all time spent on conflict is unproductive. Clarifying issues, exploring options, and developing solutions are essential and productive responses to organizational conflicts.

Unfortunately, conflicts often escalate when destructive fight or flight behaviors are used. A downside of these destructive responses is that they lead to unproductive time. The time is unproductive because it doesn't lead to resolution of the conflict, and it detracts from other important work. The unproductive or wasted time includes elements that are described by both presenteeism and absenteeism. Specific examples include:

- Worrying about the conflict
- Complaining to other people about the conflict
- Time spent avoiding others involved in the conflict
- Time away from work to avoid having to deal with the conflict or because of illness brought on by the stress of the conflict (Klachefsky, 2008; Spector and Lee, 2013).



### ***Calculating the Cost of Time Spent Unproductively***

The cost to the organization of time spent unproductively on conflict is essentially lost productivity. One approach for measuring lost productivity is looking at single instances of conflict. This approach is used in the *Dana Measure of the Financial Cost of Conflict*, an online tool that looks at a number of types of conflict costs (Dana, 2014).

#### **[Click Here for Cost of Conflict Calculator](#)**

A second approach focuses on annualized costs. It requires estimating the amount of time people spend unproductively dealing with conflict. When doing this estimation, it is important to differentiate total time spent on conflict from unproductive time. As noted earlier, total time can be a very high percentage. Although unproductive time will be less, it can still be significant. If an organization is uncertain about the right percentage to use, we recommend surveying managers and employees to determine an average figure.

When conducting the survey, be sure to emphasize that what is being measured is unproductive time. Giving specific examples like those presented above help clarify what is meant by unproductive time. We recommend using one survey with managers and a separate one with employees. If you want a more refined result, you can add other groups such as supervisors or directors.

It also is necessary to determine how many people are in each group as well as their average salaries (including bonuses) and benefits. Once you have that information, you can use the following processes to calculate the cost of unproductive time spent on conflict per year.

## **MANAGERS**

1	Average annual salary of managers (including bonuses)	\$
2	Average annual cost of benefits per manager	\$
3	Add #1 and #2 to obtain average total cost of salary and benefits per manager	\$
4	Total number of managers in organization	\$
5	Multiply #3 and #4 to obtain total cost of salary and benefits for all managers	\$
6	Average percentage of managers' time spent unproductively on conflict	%
7	Multiply #5 by #6 to obtain the amount of money being spent by the organization to have managers unproductively deal with conflict	\$

## EMPLOYEES

1	Average annual salary of employees (including bonuses)	\$
2	Average annual cost of benefits per employee	\$
3	Add #1 and #2 to obtain average total cost of salary and benefits per employee	\$
4	Total number of employees in organization	\$
5	Multiply #3 and #4 to obtain total cost of salary and benefits for all employees	\$
6	Percentage of employees' time spent unproductively on conflict	%
7	Multiply #5 by #6 to obtain the amount of money being spent by the organization to have employees unproductively deal with conflict	\$

The Sum of totals for all the groups equals the organization's total costs (salary and benefits) of unproductive conflict. In addition to this money, organizations also experience opportunity costs. While managers and employees are spending time unproductively on conflict, they are not focusing on the work for which they were hired. In for-profit companies, this wasted time could result in lost revenue. To calculate this loss, first determine annualized revenue and multiply this figure by the average percentage of time spent unproductively on conflict (Joskowski, 2014; Pearson and Porath, 2009).

### 2. Lower Motivation

People who are upset about a workplace conflict may lose commitment to their job. They often spend less time at work and decrease the amount of effort they put into their work (Dana, 2001). A related study at Cisco found that almost half of people affected by incivility experience a loss of commitment (Pearson and Porath, 2009). If conflicts are widespread, loss of motivation and job satisfaction among employees can contribute to a decline in overall business outcomes (Harter, Schmidt, and Hayes, 2002).

#### ***Calculating the Cost of Lowered Job Motivation***

While it is challenging to develop accurate estimates of how much lower job motivation actually costs in terms of productivity, it is worth the effort to investigate it. In the case of Cisco, managers estimated that the lost motivation of employees experiencing incivility resulted in a 3% drop in productivity among those employees. A similar approach can be used with conflict. The quality of estimates can be buttressed by conducting surveys with employees focusing on the number who experience lost motivation during conflicts and how much this detracts from their normal productivity. Even with surveys, these numbers will still be subjective, but they at least can begin to show the extent to which poorly managed conflict can cause employees to lose motivation and perform at less optimal levels.

### 3. Increased Turnover

Unresolved or poorly resolved conflict can cause people to leave their job. With turnover, replacements need to be hired and trained. During this time, the new employee is typically less productive than the person who left.

***Calculating the Cost of Turnover***

The first step is to determine how many employees leave a business as a result of poorly managed conflict. One approach is using exit interviews to determine the number of people who leave or are terminated for conflict-related reasons. The second step is determining the cost of lost productivity related to the turnover. For each new employee, multiply wages and benefits times the estimated percentage of reduced productivity during the time the person is getting up to speed (Cascio and Boucheau, 2011). When the employee who is being replaced was highly talented or had significant organizational knowledge, the time for a new person to reach a comparable level of productivity can take a long time. Out-of-pocket costs associated with turnover are covered in the next section.

**4. Disruptive Restructuring**

People are uncomfortable dealing with conflict. There are times when managers will restructure their areas just to separate employees who have unresolved conflicts. This type of restructuring requires people to learn new tasks and develop new working relationships, which, in turn, takes time and decreases productivity (Dana, 2001).

***Calculating the Cost of Restructuring around Conflicts***

Costs related to restructuring can be difficult to calculate. One approach is to survey managers about how often they have restructured their areas due to conflicts. The second step is to ask managers to estimate how much productivity is lost during these restructurings. Since managers may be reluctant to talk about these issues for fear of looking ineffective, these surveys should be done anonymously.

**OUT-OF-POCKET EXPENSES**

Poorly managed conflict increases organizational costs associated with turnover, health insurance premiums, theft, vandalism, violence, grievances, and lawsuits. These expenses present both cost containment and risk management issues.

**1. Turnover as an Out-of-Pocket Expense**

In addition to the productivity losses discussed earlier, turnover also creates out-of-pocket costs. These include administrative costs associated with the employee who leaves, as well as costs related to finding and bringing a new employee on board. The replacement costs can include items such as advertising job availability, interviewing, testing, moving expenses, medical exams, and training. The total turnover costs related to loss of productivity and out-of-pocket expenses differ depending on the level of employee involved. For low level employees, they might amount to several thousand dollars. For higher level employees and managers, the costs typically range between 100% and 200% percent of the departing person's salary (Cascio and Boucheau, 2011).

***Calculating the Cost of Turnover as an Out of Pocket Expense***

Once again, the first step is to determine the number of employees at different levels who are leaving on their own or who are being terminated as a result of conflict issues. As mentioned earlier, this number is not always easy to identify, but it is worth investigating. This is especially true in organizations with high turnover. It may be necessary to break the total number of employees into high or low level categories because the average expense for replacing the former will be considerably higher.

Once numbers of employees are determined for each category, the average out-of-pocket costs for replacing an employee in each category should be assigned based on the organization's past experience. The average cost for each category is multiplied by the number of people in each group to determine the out-of-pocket expenses related to turnover caused by conflict.

## 2. Health care costs related to conflict

Dysfunctional conflict can create considerable stress for employees. This stress can then contribute to a number of physical and psychological health problems (Spector and Bruk-Lee, 2013). These problems, in turn, cause employees to use more health care resources, which ultimately lead to increased premiums for the organization and the employees.

### ***Calculating the Cost of Health Care Issues Related to Conflict***

How to calculate the health care costs that are caused by dysfunctional conflict as opposed to other issues is very complex. At the same time, health care costs are so high that organizations have undertaken efforts to promote wellness as a means for reducing cost increases. In other words, considering how the conflict/stress connection contributes to increased costs is still a relevant discussion.

It is important to look at the types of health conditions that are most affected by stress such as cardiovascular diseases. After identifying the most significant conditions, the next step is to determine the total cost of such conditions. It also is worthwhile to survey employees about the role that conflict plays in the stress that they experience in the workplace. By estimating the degree to which conflict related stress contributes to costs associated with stress-related health care costs, an organization can come up with estimates of its conflict-related health care costs (Pearson and Porath, 2009, p. 39). While the organization doesn't directly pay those costs, they will affect the organization's future health insurance premiums.

## 3. Theft, Sabotage, Vandalism, Violence

One of the lurking dangers of dysfunctional workplace conflict is that in extreme instances it can lead to very negative outcomes. Frustrated employees can turn to theft, sabotage, vandalism, and violence. These problems that Dana describes as "submarine torpedoes in our midst" (Dana, 2001) are essentially risk management issues.

### ***Calculating the Cost of Theft, sabotage, vandalism, violence***

Fortunately, these serious outcomes of dysfunctional conflict do not happen frequently. In order to quantify the cost, the first step is to identify those instances of theft, Sabotage, Vandalism, and Violence that are related to conflict. The next step is to estimate the costs to the organization of each instance and then tally the total amount.

## 4. Grievances

In unionized settings, unresolved conflicts can result in grievances being filed. These grievances, in turn, can cost administrative time and expense (Dana, 2001). In the U.S. Federal government, grievances can trigger investigations that ultimately cost agencies thousands of dollars each, regardless of the outcome.

### ***Calculating the Cost of Grievances***

In organizations where grievances are part of the process of handling conflicts, the total number of grievances filed each year can be multiplied by the average cost per grievance to determine a total cost.

## 5. Lawsuits

In more extreme cases, workplace conflict can lead to lawsuits. Sometimes these take the form of a single employee filing a suit. In more serious cases, systemic conflicts can lead to class action suits. Lawsuits can be expensive from financial, time, and public relations points of view.

### ***Calculating the Cost of Lawsuits***

General counsel and financial officers can provide good figures on the amounts paid in lawyers' fees, costs, settlements, and awards. Additional efforts are needed to determine the amount of time spent by officers and employees responding to discovery, preparing for trial, and participating in proceedings. The time spent would actually be a drain on productivity, especially in instances where the lawsuits results from poorly managed conflicts.

## LOST OPPORTUNITIES

Conflict can also affect more fundamental elements of organizational success. In particular, it can degrade decision quality and impact the attainment of strategic goals.

### 1. Poor quality decisions

In some cases, the biggest cost of conflict stems from poor decision making. In order to make good decisions, leaders need quality information and a vigorous vetting process. When dysfunctional conflicts occur, people typically talk less with one another which results in less information being shared (Dana, 2001, Runde and Flanagan, 2012). Since information and choices that are presented are also not discussed and debated adequately (Roberto, 2005), the process often leads to poor decisions.

### ***Calculating the Cost of Poor Quality Decisions***

Organizational leaders can be asked to reflect on decisions they have made. They should be asked to focus on poor decisions and to determine which of those were significantly affected by conflicts. When they identify these decisions, they can then be asked how much the decision cost the company. While the answer may not be a precise figure, they will usually be capable of giving a general estimate.

### 2. Lessening the chance of achieving strategic goals

Senior leaders do not typically think about conflict in the organization; they are focused on developing and implementing strategic goals. A key question for them to consider is how conflict affects those strategic goals (Flanagan and Runde, 2011; Lipsky and Avgar, 2010). If conflict is managed poorly, how would this detract from the chances of meeting important goals? Conversely, if conflict is managed well, how would this support the achievement of these goals?

### ***Calculating the Cost of Conflict and its Effect on Achieving Strategic Goals***

This process typically involves a discussion with leaders about how conflict has impacted strategic goals. The first step is to clarify strategic goals and have the leader choose one goal of particular importance.

The next stage involves a discussion of how organizational conflict could affect the organization's ability to achieve the goal. If the goal is not achieved in part or in whole, how much would this cost the organization? From the leader's point of view, what metrics would be keys in analyzing the relationship of conflict to the strategic goal? Although the outcome of this discussion is usually more general in nature, it often times can be significant in terms of the organization taking steps to manage conflict more effectively.

## **MORE ABOUT THE COST OF CONFLICT CALCULATOR**

The in-depth enterprise version of the Conflict Calculator, originally created by Dan Dana, is a dynamic tool that measures the cost of conflict across an organization. The calculations are based on research and up-to-date industry averages.

The enterprise version of the calculator measures the cost of conflict on the following factors:

- Organizational Productivity
- Manager & Employee Turnover
- Employee Theft and Sabotage
- Employee Health
- Absenteeism
- Creativity and Decision Making

## **HOW YOU CAN USE THE CONFLICT CALCULATOR**

### **ESTABLISH A QUANTITATIVE ASSESSMENT**

The Conflict Calculator provides the current cost of preventable conflict being incurred by the client organization.

### **RE-MEASURE RESULTS**

After implementing training and other optional components of the MTI Training System, you can complete the Conflict Calculator again .

### **COMPARE RESULTS**

By comparing pre- and post-implementation measures, you have a concrete estimate of the financial savings resulting from training in the core competencies for managing workplace conflict and other support activities.

## **[Take the Conflict Calculator for Yourself](#)**

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