The cost of conflict at work and its impact on productivity

ReWAGE Policy Brief

1. Introduction

There is a growing body of research evidence that suggests the quality of management practice is a key part of solving the UK's productivity puzzle.[1] However little is known about the ways in which poor management damages organisational and economic performance, and an inevitable consequence of managerial failure is workplace conflict.

This Policy Brief reports on the first attempt to provide a robust estimate of costs of conflict faced by organisations in the UK.[2] Overall, more than 1 in 3 workers experience conflict at work at a cost of £28.5bn per year in the UK as a whole – an average of around £1000 for every UK worker. By far the largest costs relate to the lost productivity associated with the end of the employment relationship. Crucially the research underlines the importance of early intervention and the need to invest in enhanced managerial skills.

2. Building a business case for conflict management

Although conflict is a normal part of organisational life, it is difficult to convince leaders and policymakers to take this problem seriously. In part this neglect is due to the negative connotations of workplace 'conflict' but it is also because conflict (and its management) tends to be opaque. Around 1 in 5 of all UK employees who experience conflict do nothing about it, while two-thirds of those who resign as a result of being involved in conflict do so without first discussing it with their line manager. When managers, HR practitioners and union representatives successfully resolve workplace conflict, it tends to be achieved behind closed doors – neither recognised nor measured.

In addition, existing authoritative data sources, such as the Workplace Employment Relations Study (WERS) and Survey of Employment Tribunal Applications (SETA) do not measure the less formal and less visible processes of conflict management and resolution. To estimate these impacts, we draw on online surveys conducted for the Chartered Institute of Personnel and Development (CIPD) using a representative

[1] HM Government (2019), *Business Productivity Review*, November.
[2] Saundry, R. and Urwin, P. (2021) Estimating the Costs of Workplace Conflict, Acas - https://www.acas.org.uk/costs-of-conflict; Saundry, R. and Urwin, P. (2021) Estimating the Costs of Workplace Conflict in Northern Ireland, Labour Relations Agency. This research was funded by the Advisory Conciliation and Arbitration Service (Acas) and the Labour Relations Agency (LRA).

sample of individuals from the YouGov panel to capture the 'hidden' impacts of conflict.[3]

3. The costs of workplace conflict

Overall, we estimate that 9.7 million employees experience conflict at work in the UK each year.

3.1 Responses and resolution – nipping issues in the bud

Good practice generally advocates the use of informal resolution, resolving workplace conflict through discussion. Although early intervention of this type has the potential to defuse difficult issues it does involve a cost to the organisation in terms of management and employee time. The most common reported response was discussion of the issue with a line manager (40%), discussion with HR (11%) or with an employee representative (6%). Inevitably, some of these attempts at informal resolution will be unavoidable, even in the best managed workplaces. Taking this into account, and assuming that each one of these different discussions takes an average of one hour, **we estimate that the total cost of informal discussions triggered by conflict in UK workplaces is £120m each year.[4]**

Organisations may also need expert input by referring the matter to mediation – either in-house or by engaging an external workplace mediator. The data suggests that 5% of employees in the UK take part in some form of workplace mediation at a **total cost of a further £140m.** In terms of the impact of mediation, it is notable that three-quarters of those who underwent mediation (74%) also reported that their conflict had been fully or largely resolved.

3.2 Presenteeism and absence

Conflict also has a negative impact on the well-being of employees and consequently on their performance. Nearly 6 out of every 10 workers who experience conflict in the UK report suffering from stress, anxiety or depression as a direct result. The vast majority neither take time-off nor resign but just over one-quarter report a consequent drop in productivity. Based on the literature, we estimate a reduction of 12% for a period of more than two weeks. This figure equates to a productivity loss per employee of 2.06 days at an average cost of £237.14 per day[5] and therefore a **total estimated cost in lost productivity due to presenteeism of £589m per year.[6]**

A much smaller proportion – just 9% of employees – take time off work in response to being involved in conflict. We know that this is likely to be connected with stress,

[3] CIPD (2020) *Managing conflict in the modern workplace* - https://www.cipd.co.uk/knowledge/fundamentals/relations/disputes/managing-workplace-conflict-report.

[4] This estimate reflects the costs related to avoidable workplace conflict – for further details of this approach to estimation see Saundry and Urwin (2021)

[5] GVA per employee per hour for the UK at the time the analysis was conducted was £31.96 [ONS Labour Market Statistics March 2020] and we assume average 7.42 hours worked per day.

[6] If one accepts that all employees experiencing presenteeism see the same fall in productivity, the cost would increase to £2.3bn.

anxiety and depression linked to conflict and also that absence for such reasons tends to be longer than absence for physical sickness. We estimate that 17.2 days of additional sickness absence can be directly attributed to conflict, leading to an overall loss of 15 million days per year. Therefore, the estimated total cost of sickness absence as a result of individual workplace conflict is **£2.2bn.**

3.3 Formal procedure – the costs begin to mount

Where issues cannot be resolved informally, formal disciplinary and grievance procedures may be initiated. Formal processes represent a significant cost to organisations in terms of staff time – WERS data suggests that there are an estimated 374,760 formal employee grievances. If we take a conservative estimate that each grievance takes an average of five days of management time, **the average cost in management time of a formal grievance is approximately £950.50 and the total cost to UK employers is £356m. Disciplinary action is much more common in UK workplaces –** just under 1.7 million disciplinary cases per year, costing **£2bn in lost management time.**

3.4 Dismissal and resignation – ending the employment relationship

The ultimate outcome when attempts at conflict resolution fail is the ending of the employment relationship either through resignation or dismissal. Although these outcomes are relatively rare events, they impose significant costs on organisations. We estimate that 485,800 employees resign each year as a result of conflict. Work conducted by Oxford Economics[7] suggests the cost of staff turnover can be measured across two dimensions: average costs of recruitment (and some 'replacement costs' such as induction training) and lost productivity as new recruits 'get up to speed'. **On average the cost amounts to over £30,000 per employee, with a total cost of £11.9bn connected to resignations and £10.5bn to dismissals in UK workplaces[8].**

3.5 The cost of litigation

Organisational perceptions of the cost burden of conflict tend to revolve around the threat of litigation – and which is where most policy attention has been focused. Although the legal costs associated with workplace conflict are significant, they are relatively small in comparison with those connected with the breakdown of the employment relationship. It is important to note that litigation is rare – around 1% of those employees who experience conflict go on to register an intention to bring a claim. Furthermore, only 1 in 5 of these cases proceed to a formal employment tribunal claim and a relatively small minority of these claims proceed to a hearing. The likelihood of cases being settled, withdrawn or dismissed at an early stage explains why **the largest cost associated with litigation is management time, at an annual of total of £282m**. The estimated cost of legal representation to UK organisations is £264m each year and UK employers pay out £225m in settlements and compensation.

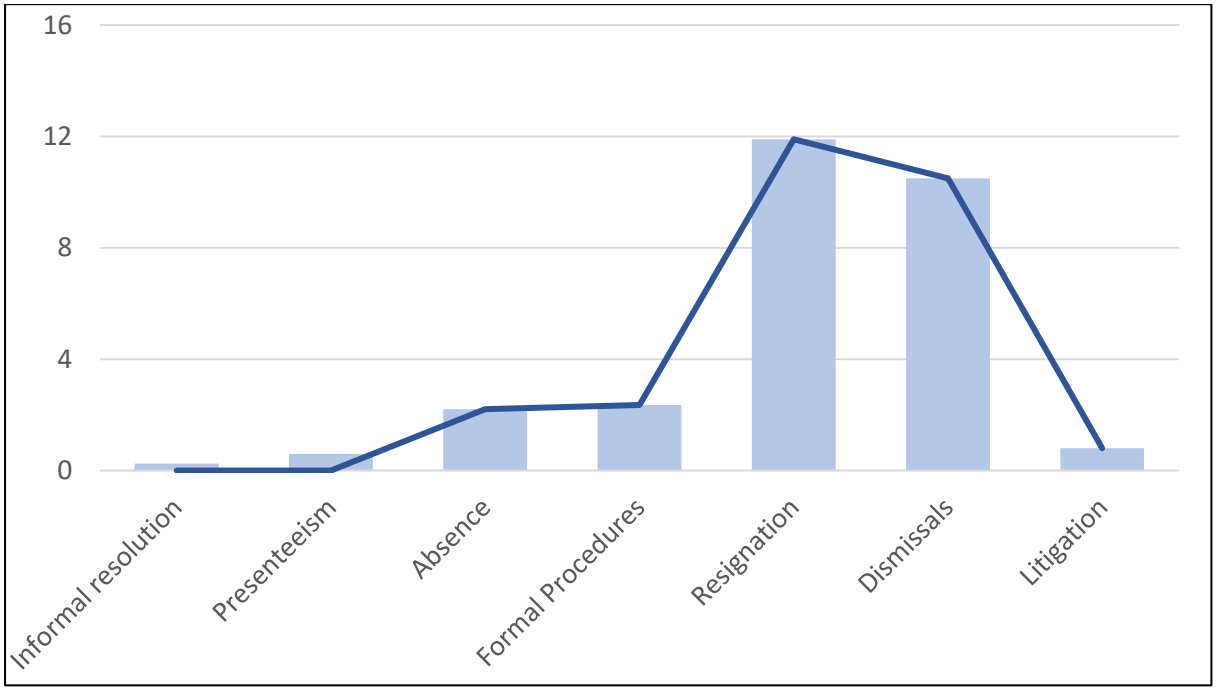
[7] Oxford Economics (2014) *The cost of brain drain: understanding the financial impact of staff Turnover*, www.oxfordeconomics.com/my-oxford/projects/264283.
[8] This estimate is discounted to reflect the fact that an amount of turnover is inevitable, even in the absence of workplace conflict – for more details see Saundry and Urwin (2021).

Overall, **the annual cost of employment litigation to employers amounts to approximately £800m,** just 4% of the cost attributed to resignations and dismissals.

4. Conflict escalation and early intervention

The estimates outlined above show for the first time the potential costs of allowing conflict to escalate. Graph 1 below suggests that costs in the early stages of conflict are relatively low but start to mount if employees continue to work while ill and take time off work; and the use of formal processes can push costs higher. However, costs escalate very quickly as soon as employees either resign or are dismissed. This 'hump' is where the bulk of costs are contained.

Graph 1: The escalating costs of conflict in UK workplaces (£bn)



Source: Saundry and Urwin (2021)

It is important to note that the development of conflict is not linear. Nonetheless, this representation is broadly reflective of workplace practice and highlights the cost implications of allowing the employment relationship to deteriorate and ultimately collapse. In addition, our analysis shows the benefits of informal resolution – the costs of conflicts are lowest when individuals engage in informal discussion with their managers, HR or union representatives and are highest in those cases dealt with through formal procedure. This difference can largely be explained by the greater likelihood that these procedures will result in absence (21%) and/or termination of employment (12%). The average costs of conflict where employees did not engage with their managers, HR or union representatives were higher than where such discussions took place. Furthermore, where conflict spiralled into formal procedures, costs were more than three times those associated with informal resolution.

5. Policy implications and recommendations

Our analysis shows that investment in effective, early resolution designed to repair the employment relationship may have a very significant return. Too often organisations fail to address and resolve problems with performance and/or behaviour and instead resort to dismissal or managing staff out of the organisation. The costs of replacement and bringing new employees up to speed are often hidden or at least opaque.

The scale of these costs means that it makes much more sense to develop sound recruitment and performance management strategies to avoid such problems in the first place. But perhaps most importantly, managers need to have the core people skills to be able to have quality interactions with their staff and to have difficult conversations when necessary. There is also a strong argument to rebalance policy away from legal compliance and the effectiveness of the tribunal system towards the resolution of conflict within organisations.

Given the high costs of workplace conflict and its impact on productivity, a number of recommendations follow from our analysis:

1. Organisations should improve their recruitment and performance management practices to minimise conflict in the workplace and encourage early intervention.
2. UK employers should ensure that managers, particularly line managers, are trained to acquire good people and conflict management skills as a matter of course.
3. Managerial capability should be a core component of government policy to boost UK productivity. It should focus on supporting the flexible and accessible provision of the skills needed to build, maintain and repair high quality employment relationships in the workplace.

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This paper represents the views of the authors based on the available research. It is not intended to represent the views of all ReWAGE members.

About ReWAGE

ReWAGE is an independent expert advisory group modelled on SAGE that is co-chaired by the Universities of Warwick and Leeds. It analyses the latest work and employment research to advise the government on addressing the challenges facing the UK's productivity and prosperity, such as Covid-19, the cost-of-living crisis and labour shortages.

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