chapter
NINE

Prevention and Resolution of Conflicts with Clients, Customers, and Vendors

Learning Objectives

- Demonstrate an understanding of the root causes of common customer service complaints.
- Demonstrate an understanding of the linkages between satisfied employees and satisfied customers.
- Compare and explain the relative benefits of seeking out new customers versus increasing customer satisfaction with existing ones.
- Develop monitoring tools to gather data on customer and client satisfaction and use that information to make improvements to products and services.
- Explain methods for creating employee incentives for superior customer service.
- Describe the benefits of a relationship management approach to reducing and managing conflicts with repeat customers and vendors.

ELISE AT MAIN STREET BAKERIES

In spite of a sluggish economy, Main Street Bakeries is doing alright. The trend toward locally grown and organic foods has helped the company grow quickly and establish a stable niche in the marketplace. But for the last twelve months, growth and profits have flattened out. Additionally, Elise can't help but wonder if she is reaching her full market potential; her customers are generally upper middle class, educated urbanites and suburbanites. She believes that healthy, local, organic foods should be available and attainable for everyone but she is not sure how to reach out to new customers while keeping her existing ones.

Whether you work in the private, public, or nonprofit sector, you must pay attention to the needs of the end users of your products or services. You may call them *clients, customers, patients, guests, constituents, the community*, or *the public*. For the purposes of simplicity, in this chapter we will call the end users of our services *customers*. "**Customer satisfaction** is defined as a measure of how a firm's product or service performs compared to the customer's expectation" (Zondiros, Konstantopoulos, & Tomaras, 2007, p. 1086). Consulting firm Bain & Company surveyed managers across US industries to find that 80 percent of managers believe their organizations provide excellent customer service but only 8 percent of their customers agree. "Horror stories abound. Callers get trapped in seemingly endless interactive voice response (IVR) loops; they can't find phone numbers at web sites; no one responds to their e-mail messages; and, if they manage to get through to a representative, they cannot get the problem resolved promptly" (Greengard, 2003, p. 32). These horror stories are not isolated events—we've all experienced frustrating customer service, whether in restaurants or as citizens seeking services from public agencies.

Duarte and Davies (2003) studied the relationship between conflict and efficiency in business relationships, finding that "when efficiency or performance drop drastically, conflict seems to rise drastically in response" (p. 96). Preventing disputes with customers and efficiently addressing those disputes that cannot be prevented are critical to attracting and retaining customers. "During a recession, with consumer confidence at a low ebb, keeping your customers satisfied and retaining them is vital for survival. Retailers need to understand how they satisfy their shoppers in order to enhance their appeal and increase customer loyalty. Moreover, an insight into what drives customer satisfaction at competitors is essential to win customers from them" (Datamonitor, 2010). Ensuring a pleasant transactional experience will make your organization a more positive place to work as well as enhance your competitiveness. Few private or nonprofit organizations can survive for long if they alienate their clientele or disregard their feedback. In the public sector, public complaints about poor service or inefficiencies will likely lead to ousted leadership or reform from above. When it happens, the managers and leaders may suffer significant damage to their careers that could have been prevented.

This chapter will examine the best practices for preventing, tracking, and reducing disputes with customers. The following box introduces some key rules for delivering superb customer service. Each will be further elaborated.

Rules for Stellar Customer Service

Rule one: A house divided will not stand.

Rule two: Be sure you deliver what you promise (quality products and services).

Rule three: Improvements require monitoring.

Rule four: Create incentives for desired behaviors.

Rule five: Empower employees to resolve disputes at the lowest level possible.

Rule six: Avoid a myopic focus on new customers over existing ones.

Rule seven: Devise, evaluate, and revise systems.

RULE ONE: A HOUSE DIVIDED WILL NOT STAND

Proactive conflict managers strive to create a culture in which employees at all levels feel valued, they buy in to the organizational mission, and they treat each other and customers with respect and appreciation. Happy employees are foundational to satisfied customers. Dysfunctional workplaces simply do not result in consistently high levels of client satisfaction. According to Zondiros, Konstantopoulos, and Tomaras (2007), "Employee satisfaction is one of the most important factors leading to customer satisfaction, the others being expectations and disconfirmation of expectations" (p. 1086). In other words, customer expectations are important for satisfaction—if your marketing efforts set up unrealistic expectations and those expectations are disappointed, then satisfaction will decline. Although these factors are important for predicting customer satisfaction, employee satisfaction actually tracks customer satisfaction more closely than either of these factors. Creating a positive workplace culture and rewarding those who strive to give great customer service is critical to creating a positive experience for customers and clients.

Increasingly, disgruntled employees are the cause of bad press because they use blogs, Twitter, Facebook, and other social networking mechanisms to communicate their disgruntlement. Employees who have been mistreated, just like customers who have bad experiences, are likely to share their stories with literally a dozen or more others, further damaging the organization's reputation and brand. In the worst cases, employers accused of discrimination or blatant disregard for their employees' welfare have been on the receiving end of customer boycotts—remember the accusations of sweatshop conditions against Nike, Walmart, and others?

Some organizations have figured out the link between employee satisfaction and customer satisfaction. Southwest Airlines explicitly states its unique operating style: "Employees come first and customers come second." Southwest has earned a profit even in years where every other US airline lost money and as a result has grown faster than any other US airline. Even during the Great Recession, when most other airlines have reduced staffing levels, Southwest has refused to lay off workers. Customers rave about Southwest's fun, informal, and enthusiastic staff members. Southwest's employees are "hired for attitude and trained for skill" (Garrison & Keller, 2008, p. 13). Managers at Southwest are trained in a leadership style that gets them to "coach and encourage" rather than pursuing a style of "supervising and enforcing rules" (p. 14). The employee turnover rate is the lowest in the industry and 80 to 90 percent of managerial jobs are filled internally.

So, rule one is to get your internal house in order (see Chapter Five). Treat your employees well so that they have the energy and the will to pass on that same treatment to your customers.

RULE TWO: BE SURE YOU DELIVER WHAT YOU PROMISE (QUALITY PRODUCTS AND SERVICES)

The best customer service in the world cannot make up for defective or underperforming products. Be sure your products are meeting the needs of your current customers and are innovative enough to attract new ones. For many organizations, their product is a service. For example, universities offer educational services; marketing firms, law firms, and health care practitioners all offer a service as their product. For these industries, the quality of the service and the service experience will be central to building a reputation that keeps and attracts clients.

Whether you make widgets or conduct market research, "if the quality of your products is great and your service is mediocre, a customer might return, but you won't gain any repeat customers if you have subpar products, even if your service is outstanding" (McGown, 2009, p. 66). There is no substitute for doing your homework. What do your competitors charge for the same products or services and how does their quality compare to yours? If your products are equivalent to others on the market then you have only two routes to success: (1) find ways to improve your products or pricing to gain a competitive advantage or (2) beat them by offering a superior service experience.

Be sure to avoid a common pitfall—overpromising. Sometimes an organization's marketers are better than their engineers. If your marketing efforts create unrealistic expectations among consumers and your products and services do not fulfill those expectations, then costly conflict is likely to result.

There are many books that deal with methods for creating a can't-miss product. Much of this information will be industry specific or confined to the type of good or service being offered. Rather than helping you think up the next consumer fad, this chapter is focused on methods for ensuring you minimize unproductive conflicts with customers and provide the best dispute resolution options possible for those problems that cannot be reasonably avoided. Creating, marketing, and sustaining high-quality products (or services) is foundational to this effort. Rolex makes great quality watches and Harvard trains great lawyers. The quality of their products and services does not substitute for good customer service but they could not have built solid reputations spanning generations without building and maintaining high-quality control standards that have become synonymous with their brands.

RULE THREE: IMPROVEMENTS REQUIRE MONITORING

As this book has indicated repeatedly, feedback is the lifeblood of a successful collaborative manager. This is equally true for the organization as a whole: feedback on the product itself, feedback on the sales experience, feedback on the payment and delivery processes, feedback about the organization's

Internet or telephonic resources, feedback on the cleanliness or attractiveness of the facilities, feedback on any dispute resolution processes used, feedback about ways to improve the customer's experience, and overall feedback as to whether the customer would recommend the organization's products or services to a friend. This information forms a vast reservoir of ideas for constant improvement.

There are myriad ways to gather feedback. Think about the customer service satisfaction processes you have taken part in as a consumer or end user. Your restaurant has included a telephone number or Internet site you use to take a survey and receive a free appetizer on your next visit, your car dealership asks you about your customer service experience, your physician or hospital asks you to rate your wait time and overall experience. These are attempts to gain detailed information about the customer's experience on an ongoing basis to ensure consistently high levels of performance and to catch problems early on. Data should be gathered on the quality of the goods or services themselves as well as the customer's experience during and after the transaction. Look for repeat customers who stop coming back. "Businesses need to monitor defection triggers and identify customer problems through customer activity. Often, that means monitoring" (Bland, 2004, p. 20).

In order for these instruments to be useful and worth the time and money it takes to administer them, the organizational leaders must be open to whatever results they may find. "Customer satisfaction surveys frequently create a skewed picture. Many companies use self-serving questions—or fail to address key issues such as whether the resolution process was handled efficiently. So, while the rep may have performed admirably and received the highest rating, the caller may remain frustrated by the length of time or effort it took to reach a rep or because the incident wasn't resolved in a satisfactory way" (Greengard, 2003, p. 35). Asking the right questions is clearly important in order to get the detailed feedback necessary to pinpoint problems and address them quickly. Customers' perceptions are just that—their perceptions. It makes no sense to argue about why customers should not have felt the way they did; their perception of their experience is inherently valid. Although the occasional curmudgeon may be impossible to please, trends in the data cannot be ignored. And a small warning is in order: although you are likely to aggregate this data to look for trends or repeated sources of problems, be sure you do not leave your customers with the impression they are just a number or case. Anything you can do to personalize the customer's experience and meet their individualized preferences is likely to serve you well (Rigge, 1997).

A corporate manager interviewed for this book stated that her company gathers feedback about every aspect of a transaction—from the contact with the sales staff, the signing of the contracts, to the delivery company that brings the item. When the feedback reveals anything less than a completely positive experience, the relevant manager conducts a root cause analysis to determine what went wrong. Then an action plan is developed to make it right with the specific customer as well as to ensure that the problem does not recur. Also, this information is also used for quarterly departmental and individual performance reviews. Raises and promotions are tied to the number of problems that are flagged through the monitoring system, but more emphasis is put on the ways in which managers and employees responded to those problems. All are expected to respond without defensiveness or excuses. Managers who use this information to make constant improvements in their team's performance more consistently reach their sales and service goals, have fewer conflicts within their work teams, and move up through the ranks faster.

Costs of Disgruntled Customers: What Not to Do

A New Zealand family was holidaying at a resort island in Fiji. During the stay, the mother suffered food poisoning. Her worried husband asked for help for his wife and their five-month-old baby because his wife was breastfeeding. The resort promised to bring a nurse with access to medical supplies across from a nearby island. Several hours passed. When the anxious husband asked what was happening, the resort manager explained he hadn't sent for the nurse because the boat would cost $40 and the resort wouldn't cover the cost. The husband exploded and paid the $40 on the spot. Three hours later the boat arrived—without the nurse. Instead, the boat driver handed the husband a small packet of unmarked pills, which

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he gave to his wife in desperation. Strong tranquilizers, the pills knocked his wife out and compounded her medical problems and the well-being of their baby. Upon their return to New Zealand, and after spending $4,500 on a disastrous holiday, the husband set about revenge. He spent hours on the Internet campaigning hard for travelers to avoid that Fiji island resort. He posted messages to Internet bulletin boards, put warnings in travel chat rooms, e-mailed business and personal colleagues, and told everyone he could think of. He later said these actions were the only thing that assuaged his fury.

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RULE FOUR: CREATE INCENTIVES FOR DESIRED BEHAVIORS

People respond to incentives. Want to see customer service improve? Tie raises and promotions to consistent improvements and high levels of customer satisfaction at the individual and team-unit levels. For example, when a car dealership from company *x* performs well on measures of customer service in the sales and mechanical service departments, they qualify to receive in-demand new models and parts faster than those with lower ratings. So, if Main Street Motors wants to stock the newest hybrid vehicle that is all the rage, they had better keep their customers satisfied. Otherwise, they get put on a waiting list behind those with better service records. Or when merit raises are handed out each year, Bob from accounting may get passed up because the internal managers and employees he supports have said he consistently does not meet his deadlines. The information gained from monitoring performance must be tied to employee incentives; otherwise, there is a missing link between knowledge and action. Incentives can include merit raises, promotions, public recognition (such as "employee of the month"), preferred parking, and preferred job duties or other benefits.

It is important to create challenging yet attainable goals and objectives for customer service. If deadlines or goals are repeatedly missed, regardless of the personnel tasked with meeting them, then they are clearly too high. Unrealistically high goals lead to cynicism and apathy on the part of employees: "Why should

I even try? I'll never be able to reach that goal." If you are unsure about how to set realistic goals, make the first few months or quarters a pilot phase that allows you to experiment with an offer of carrots (positive incentives) rather than sticks (negative sanctions for missing the mark). Consider offering financial incentives, recognition, and rewards for employees who come up with improvements to products, processes, or services. Frontline employees are likely to know the products and customers better than those at higher levels.

RULE FIVE: EMPOWER EMPLOYEES TO RESOLVE DISPUTES AT THE LOWEST LEVEL POSSIBLE

Nothing is more frustrating than explaining your complaint to the sales clerk at the store or the representative on the phone only to be transferred to someone else, requiring you to start over from the beginning. Once this has happened three or more times, what might have been a relatively small complaint has now become a big one. Many frontline employees have zero authority to address customer complaints. This frustrates the employee and the customer and results in wasted time for supervisors and managers.

Instead, consider the following plan: use the data gathered from rule three to determine the most common types of customer complaints. After taking steps to reduce or eliminate the root causes of as many of these complaints as possible, organizational leaders should determine which complaints warrant the attention of supervisors and managers versus those that can be handled by the frontline employees. If your leaders decide none of the recurring complaints can be handled by employees, it may be the case that (1) your leaders are uncomfortable with delegation as a managerial skill (if so, see Chapter One); (2) you have not properly hired, trained, and acculturated your employees so as to entrust them with these tasks (see Chapters Five and Six); or (3) your organization has so few complaints that each one needs to be handled as a unique event by middle to upper management. If explanation three is the case, yours is indeed rare among organizations and you may wish to reconsider one and two as possible options.

Employees need to be trained to handle complaints efficiently, fairly, and in a way that makes the customer more rather than less likely to return. Nearly all frontline employees can benefit from training in listening, framing, and problem-solving skills. This training will help them convey empathy to customers, deeply listen in order to understand the customers' needs, and work with customers to find a solution that meets their needs. Scott (2008) advises individuals in conflict situations to avoid the tendency to vent anger or frustration, understand the reasons behind the conflict, and then use intuition to solve the problem. However, employees should also be prepared to deal with customers who do indeed voice their anger or disappointment in hostile ways. The trick is to remind employees not to take it personally—any employee could have answered that call or waited on that customer. By remaining calm, reassuring the customer that the issue will be fairly and efficiently rectified, the organization can seize an opportunity to improve a relationship with a client. Remember, it is not conflict that harms relationships; instead, it is the way in which conflict is handled. In fact, good customer service in response to a complaint is one way to solidify a customer's loyalty.

Each employee should know where her settlement authority begins and ends. For example, when a customer is unhappy with our product, the employee can offer a full refund or an exchange (in addition to a sincere apology, when warranted). But be wary of template solutions that do not allow employees to use their own judgment to come up with more creative solutions in order to meet the occasional customer whose complaint or needs are unusual. This flexibility respects the employee's intelligence and ensures the customer is not passed around like a hot potato, seeking someone who can be of assistance. Frontline employees and each layer of management above them need to be clear about their settlement authority as well as be required to provide feedback upward about what is working well and what is not.

Sometimes a customer will be satisfied with a sincere apology and an effort to fix the problem through a refund or replacement of the item or service. A study by Robbennolt (2003) indicated that recipients of full apologies are more likely to accept a settlement, whereas recipients of settlement offers with no apologies are less likely to accept a settlement. The results for partial apologies were mixed. The "I'm sorry for your harm" type of apologies did not result in settlement rates as high as full apologies (Robbennolt, 2003). Other research has found that approximately 8 percent of the disputes stemming from eBay transactions involved a request or demand for an apology as a condition of settlement (Raines, 2005). In fact, a significant percentage of disputants rejected monetary offers of equal or greater amounts than the value of their purchase if no apology was forthcoming. Giving your employees the permission to offer a sincere apology and to work to fix the problem can go a long way to reducing the number of disputes that escalate and become formal complaints or litigation.

Another customer service pitfall is to create a punitive policy based on the bad behavior of a small number of customers who try to game the system. "What pains many organizations . . . is that they apply a general template to all customers or penalize 99 percent of their customer base because of the bad behavior of 1 percent" (Greengard, 2003, p. 35). For example, when a customer buys an airplane ticket online with Delta Airlines, using their self-service portal, it is predictable that an occasional user error will occur. For example, "I accidentally booked the ticket for March 5 but I meant to select April 5." As long as the customer calls soon after the sale, and this is not a repeated problem for this customer, then the Delta Airlines employee can assist the customer to change the ticket without paying a change fee. Another example comes from retail stores: some require a store receipt for a return and only allow the return within a specified period after the purchase (thirty days, for example). They may do this to avoid customers who buy clothes for a special occasion only to wear them and return them. Other retailers convey they trust their customers but track returns to be able to spot those customers who abuse the organization's policies.

What makes for a fair and efficient resolution process? Gilly and Gelb (1982) conducted research into customer complaints and found that customers sought swift resolution for nonmonetary complaints (defective products, poor service) but were willing to wait longer when the complaint involved a monetary resolution. Similarly, Ito, Toshihiko, and Fujimura (2010) found that a quick response was linked to customer satisfaction with disputes over quality matters. If you are unsure of the best methods for addressing customer complaints, consider tapping the collective wisdom of your employees as well as asking for feedback from complaining customers. Use this information to pilot various approaches and tweak the system until the desired results are achieved.

Costs of Disgruntled Customers: What Not to Do

If only it were as easy to keep customers as it is to lose them. At the height of summer an energy provider received a phone call from a distraught customer saying she lived in a rural area and

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her power had been cut off, leaving her and her children without water. The energy provider was barely polite; until the customer had paid her bill, power would not be restored. The recently relocated customer became apologetic; she explained she had called the energy provider with her change of address but had not received a bill and had been too busy to notice. The provider replied such notification had not been received and inferred the customer was lying. After a significant amount of upset, the provider told the customer they would do her a "favor" in allowing her to pay her bill over the phone by credit card. The minute the power was restored the furious customer changed energy providers and lobbied local newspapers to write a story saying her previous energy provider left women and children in the countryside without water.

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RULE SIX: AVOID A MYOPIC FOCUS ON NEW CUSTOMERS OVER EXISTING ONES

This rule is the perennial downfall of credit card companies and cable television services across the United States. These companies often attract new customers by offering extremely low prices or interest rates for the first six or twelve months only to have them jump up thereafter. This reflects a strategy designed to attract new customers and disregard current ones. It is likely that the internal incentive structures in these companies also reward the acquisition of new clients over the retention of existing ones.

Why are existing customers more important (or at least as important) as new ones?

> The first reason is that some customers who have had a particularly bad customer experience may make it their mission in life to destroy the reputation of a business. A second, more obvious, reason for customer retention is that customers cost money to win in the first place. To survive, businesses must attract return business—ongoing revenue not offset by the cost of acquiring

> a new customer for every sale. At first glance, customer retention is a simple concept—happy customers who feel important and are regularly communicated with in the right way will keep coming back. (Bland, 2004, p. 16)

An increasing refrain heard in the literature on business management is the need to view **customers as business partners**. This means organizations should evolve their mind-set from a worldview that sees each transaction as a one-time event to instead seeing each transaction as a chance to build a long-term, mutually beneficial relationship (Witschger, 2011). The business literature often refers to the specific techniques used to court and retain valued customers and partners over a long period of time as **relationship management**. This can be as benign as assigning one consistent employee to large customers or business partners with the goal of ensuring smooth communications and institutional memory so that these partners' needs are consistently met. In other cases it can include rather obvious or obnoxious attempts to bribe organizational leaders by providing free theater tickets and rounds of golf. When done right, relationship management allows two individuals (or a small team) from one organization to develop strong relationships with their business partners or repeat customers in the service of an ongoing, mutually beneficial business relationship.

In some ways, this is where small and mid-size companies have a comparative advantage. In small businesses, the owner or manager often has more direct contact with the customers or clients. This access provides the venue for a customized, personable, responsive experience that large corporations or the federal government cannot as easily provide. Yet regardless the size of the business, customer retention and attention to existing customers should never be ignored to give higher priority to the courting of new clients.

Similarly, citizens have more access and influence in local government matters. It is easier to meet their locally elected leaders, attend public meetings, and converse with decision makers. Managers and leaders in local and state government can benefit from purposefully gathering input and feedback from the end users of government services as well as from local taxpayers.

Coleman (1992) provides advice about how business partners can build healthy relationships. He gives nine dimensions of business relationships that should be explored during the formation of **business-to-business (B2B)** partnerships: autonomy, goals, compensation, decision making, cost sharing, entrance and exit of partners, equity, firm management, and type of partnership. He recommends that partners rank these items from most to least important and share their rankings to make sure they are in agreement about the prioritization of each element in their business relationship. The same is true for a valued and repeat customer—if any one customer is critical to the life of your business or organization, then it behooves you to sit down face-to-face to better understand that customer's needs, share yours, and develop methods for working together.

What about **customer loyalty programs** that encourage customers to come back again rather than merely seeking out the best price or most convenient vendor? For example, many hotel chains, airlines, and even coffee shops offer something akin to a baker's dozen reward system. This is a method for rewarding return customers by giving them, for example, their thirteenth night free or a free domestic airline ticket once they accumulate fifty thousand frequent flyer miles, and so on. These programs may help lure customers back to your business when there are others offering basically the same products and services at similar prices. However, "they provide a discount because points are easily converted to dollars. But you cannot buy loyalty" (Greengard, 2003, p. 35). These incentives will not be enough to overcome persistently bad service experiences. Increasingly, as nearly all airlines and hotel chains offer similar customer loyalty programs, they are becoming less valuable as a way to retain customers or differentiate your company from others.

What about public sector or nonprofit organizations who do not seek repeat customers? If you work for Child Protective Services, a drug rehabilitation center, or the unemployment office, you are not seeking out repeat customers. In fact, one indicator of a job well done is that these customers or clients do not come back at all. In these cases there are two critical questions: (1) who are my organization's customers? and (2) how should my organization (or my unit within the broader organization) define and measure customer and client service?

For public and nonprofit sector organizations, customers may include the public as a whole or a narrower segment of the public (such as children in state custody, addicts and their families, unemployed people and potential employers). Regulatory agencies have at least two sets of customers: the businesses they regulate, which seek an efficient and fair regulatory process, and the public. One could argue that regulatory agencies must also be responsive to informational requests posed by the legislature and to demands from the leader of the executive branch of government.

In order to achieve the organization's mission, public and nonprofit sector organizations should follow all the same recommendations listed thus far, including gathering feedback about the quality and efficiency of their services. From the length of the wait times at the Department of Motor Vehicles to the rate of tax collection for the IRS, every organization can come up with metrics by which to gauge service delivery and mission accomplishment.

RULE SEVEN: DEVISE, EVALUATE, AND REVISE SYSTEMS

Your internal house is in order. Your product and services are competitive and attractive to customers. You are monitoring, incentivizing positive employee conduct, and empowering employees to resolve problems at the lowest level. You are focusing on retaining current customers and attracting new ones. Now that your system is designed and in place, be sure to analyze the data, take stock, and make any needed changes to processes, products, or personnel to maximize the achievement of your organizational mission and maintain a positive workplace environment. Reassess and make needed changes periodically to ensure consistent improvements. For some organizations, this will be every quarter; for others it will be every six months or annually. The key is to make sure you are mining the data necessary to make appropriate management decisions.

Technology and Customer Service

Advances in technology are resulting in the increased automation of interactions between organizations and their customers: robocalls confirm doctors' appointments, Internet surveys are used to gain customer feedback, and web platforms are used to log complaints. There is no doubt that technology can save money for organizations seeking to reduce personnel expenses associated with customer services. Yet there are costs to automating customer service functions, especially customer complaints. When a customer is upset or disappointed with a product or service, an automated system cannot listen, show empathy, or look for creative solutions to the problem. Although automation may indeed be a good idea in some circumstances, be wary of the rush to technology purely as a cost-saving mechanism. In the long run, it may be more costly than anticipated.

ADR for External Stakeholder Disputes

What happens when conflict prevention and early resolution have failed? What if the customer threatens litigation, goes to the media to complain, or files a complaint with the Better Business Bureau or a similar organization? Once a dispute takes a turn toward a formal and public path to resolution, the stakes are higher. At this point, you and your organization may wish to consider the menu of ADR options covered in Chapter Four. If direct negotiation with the customer has failed to resolve the matter, then perhaps mediation should be tried. The parties can jointly select a mediator and seek his or her assistance in the resolution of the complaint. What happens in mediation and in many mediated agreements are covered by confidentiality provisions, thereby making this a good process for the protection of your organization's public image and reputation. Mediation settlement rates for most types of commercial cases range between 55 and 90 percent. Remember, mediation is a nonadversarial process in which both parties seek to explore the possibility of reaching an agreement that leaves them better off than going to court. Because parties work together to find a resolution in mediation, this process is advisable if there is any desire to maintain an ongoing business relationship between the parties. This may apply more often in B2B disputes.

Citing statistics gathered from a survey of one thousand US corporations, Mallick (2007) argues for the use of mediation as an effective means for disputes with consumers. The author shares results from ADR programs used by many US corporations (Toro; Wells Fargo; US Postal Service; Air Products and Chemicals, Inc.; American Express). Even though Toro had successfully litigated cases in the past, the implementation of a mediation program actually saved the company money overall and enabled it to reduce costs spent on legal fees. Wells Fargo implemented a multistep process for consumers with disputes of $25,000 or more, believing that this alternative to litigation would create a less negative experience for customers and improve its reputation. American Express took an interest-based approach, employing experienced mediators as their attorneys with a focus on settlement.

If mediation fails to resolve the matter or if you instead prefer to receive a binding decision from a third-party expert, you can enlist the services of an arbitrator. The benefit of arbitration is that it guarantees a binding, generally unappealable outcome that is private rather than public knowledge. When swift closure is necessary and both sides are willing to abide by the arbitrator's ruling, this may be the best choice. Arbitration is most common when there is a disagreement over the meaning of contract terms, allegations of breach of contract, or other failure to perform as expected. Chapter Four goes into additional processes and greater detail on their relative costs and benefits.

ADR Clauses in Customer Agreements

Increasingly, businesses are using mandatory ADR clauses in their customer and user agreements. The best known type of mandatory ADR clause is the **mandatory arbitration clause**, which is a binding predispute contract committing both parties to use arbitration for dispute settlement in the event of a future dispute. By signing a mandatory arbitration clause both parties give up their right to resort to resolution through the court systems. In January 2012, in *CompuCredit* v. *Greenwood*, the US Supreme Court upheld the use of mandatory arbitration clauses in employment and consumer contracts over the outcry of many consumer groups that claim these processes deny citizens their due process rights.

Arbitration was first recognized in the Federal Arbitration Act of 1925, a statute that legitimizes the use of private arbitration as an alternative venue to the courts for the purposes of dispute resolution. As long as both parties agree to the arbitration, either pre- or postdispute, then the US courts generally uphold the outcomes reached in arbitration as long as no conflict of interest or clear ethical breach was enacted by the arbitrator. Although arbitration is the most common form of binding ADR clause, there is an uptick in the use of mediation as a settlement tool as well. If mediation fails to reach agreement, then arbitration tends to become the default process in these binding clauses.

These clauses have proliferated and are generally unavoidable if you want to rent a car, open a bank account, use a credit card, rent a DVD, carry health insurance or insurance of nearly any kind, and they are even a condition of admission to many movie theaters and theme parks. Arbitration clauses usually run only a sentence or two, such as this one from the International Court of Arbitration (nd): "All disputes arising out of or in connection with the present contract shall be finally settled under the Rules of Arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with the said Rules."

These contracts often require the plaintiff (usually the consumer) to pay a steep filing fee as well as to split the arbitrator's hourly fees. Therefore, the cost of arbitration may be hundreds or even thousands of dollars to each party when the case's value is itself much smaller (such as the cost of a mistaken charge by a car rental company or a movie rental). Although small claims court fees might be reasonable given the value of the case, arbitration fees may put justice out of reach for many consumers and provide the advantage to businesses with deeper pockets.

It is for this reason that the Arbitration Fairness Act of 2009 was introduced in the House of Representatives and if passed into law will make it illegal for companies to force binding arbitration on consumers. Thus far, attempts to turn this bill into a law have met with opposition from powerful business groups, with consumer and employment groups lined up on the other side. At this point in time, it does not appear that the act is likely to become law. What does this mean for the resolution of consumer disputes? When combined with the 2012 US Supreme Court's decision in *CompuCredit* v. *Greenwood*, it is likely that arbitration will remain the most frequently used method of dispute resolution in consumer and employment disputes. Yet arbitration remains an adversarial process that bodes poorly for continuing the relationship between the parties after the arbitrator's decision is made.

In their work on mandatory arbitration clauses, Devasagayam and DeMars (2004) advise that ADR processes will be the most pleasing choice to consumers only when they perceive these methods as fairer and as less risky than litigation. However, they also argue that the use of ADR processes will likely increase as consumers become increasingly familiar with these options, thereby becoming more comfortable and less distrustful of them. When the procedures are viewed as affordable and fair and are seen as having advantages over litigation, then consumer support for ADR will grow. Unfortunately, these clauses have sometimes been used in ways contrary to a desire to foster genuinely fair dispute resolution mechanisms. For example, Drahozal and Ware (2010) reviewed multiple studies regarding business contracts and the use of arbitration clauses. They conclude that some businesses use arbitration clauses in order to avoid class action lawsuits. On the whole, ADR clauses have the potential to be beneficial to consumers and businesses—it is all in the way the programs are designed and funded, which goes to the underlying motivations of the businesses using these clauses. These are merely tools that can be used for good or ill, depending on how they are wielded.

When engaging in B2B contracts internationally, mandatory arbitration becomes much more attractive for both parties than litigation. When it comes to international business, questions of jurisdiction may complicate resolution through the courts as well as provide added difficulty to collecting on a court settlement that might have originated in a different country than the one in which the defendant resides. The costs of international travel to attend court proceedings make resolution for relatively small matters unaffordable. Most companies that conduct business internationally have developed a level of comfort with the use of binding arbitration or mediation than arbitration for dispute resolution. In some cases, these processes may be conducted virtually using video or teleconferencing services to further reduce the time and expense associated with resolution.

In keeping with the tenor of this book, companies should weigh the costs and benefits of mandatory arbitration clauses before requiring them, for a number of reasons. First, enactment of a mandatory arbitration clause may send the wrong signal to your customers. However, there is less harm in requiring either mandatory mediation or arbitration as long as the company is willing to pay the associated fees so they do not become a barrier to dispute resolution for customers and clients. Second, some customers will balk and refuse to engage in business if a mandatory arbitration clause is required. The decision to include a mandatory ADR clause will need to be made by each organization as it seeks to find the most efficient and customer-friendly methods for dispute resolution. However, be careful not to miss the opportunities to gain information and craft creative responses to problems that may come with these clauses. Resort to an adversarial process is helpful only in those cases in which no continuing relationship is likely to exist and when it is the choice of the lesser of two evils, so to speak.

Cultural Differences in Expectations for Customer Service and International Client Conflicts

In our increasingly globalized world, dispute prevention and resolution requires an understanding of intercultural communication differences. I am not referring to the mere challenge posed by differences in language but to deeper differences in meaning and the prioritization of values that varies across cultures. Expectations and norms about appropriate methods for dispute resolution are indeed influenced by national and subnational cultures. Understanding the root causes of some of these differences can help you and your team to avoid common mistakes made when individuals and organizations seek to work together across cultures.

As discussed in earlier chapters, when conferring on overall patterns of difference in communication styles between cultures, generalization becomes necessary but should not be used to make assumptions about individual preferences or habits. A great deal of variation exists within cultures as well as between them, as any New Yorker and Georgian will tell you.

Let's start with two cultures that have commonalities and differences: US Americans and Canadians. Both of these national cultures are derived from Western Europe and evolved unique qualities based on their political affiliations and geographies. Yet work by Abramson (2005) indicates that, in general, Canadian and US American customers prefer somewhat different approaches. In buyer-seller relationships, his research found that Canadians tended to respond more to price flexibility and to value formal introductions and relationship building more than their US counterparts. Canadians are more attuned to equality and fairness in buyer-seller relationships. However, US Americans responded more to marketing and promotional efforts than price flexibility and desired less time spent in trust building during business negotiations.

Other scholars have echoed Abramson's core finding that customer satisfaction in commercial transactions is indeed affected by cultural differences between buyers and sellers. Vaaland (2006) noted that the further the cultural distance, the more likely communications differences were to arise. Some national cultures, such as the cultures of Japan or Afghanistan, prefer indirect communication styles in which efforts are made to save face with all parties by avoiding any direct disagreement or through the use of intermediaries to communicate difficult information or bad news. In contractor-client disputes studied by Vaaland, transactions between indirect and direct communication cultures were found to yield less satisfying results.

In related work, Vaaland, Haugland, and Purchase (2004) found that the greater the cultural distance between two business partners, the greater their chances for a breakup. Although many facets of cultural difference can lead to challenges between business partners or between organizations and their customers, this study emphasizes the importance of risk tolerance and its variation between cultures. Aversion to risk, or lack thereof, is associated with nearly every short- and long-term decision businesses need to make. Managers from national cultures with an aversion to risk may have difficulty reaching consensual decisions with managers coming from cultures with higher tolerance for ambiguity and risk. The United States generally has had a risk-tolerant culture and bankruptcy laws that support risk taking and short-term decision making. When working with organizations or individuals whose national culture and decision-making preferences are different, managers will need to take on a metacommunicative style in which they make clear their assumptions, the reasons behind them, and seek out similar information from the other side.

It should be noted that cultural differences will significantly affect preferred processes for dispute resolution as well. For example, Darowski (2009) found that US Americans conducting business in China should be aware of a cultural preference for mediation over litigation. Mediation has been practiced for many centuries in China and is seen as a reasonable way for business partners to fairly resolve disputes without a significant loss of face that would come from a public airing of grievances in court. Darowski (2009) argues that to litigate a case with a Chinese business is to end all chance of having a future business relationship. Although an American company may see it as "just business," many other cultures are less litigious and prefer dispute resolution mechanisms that rely on collaborative methods over adversarial ones.

CONCLUSION

As successful managers know, great service does not imply that mistakes are never made. It implies that employees at all levels of an organization are committed to proactively addressing problems that arise, without defensiveness, and with an eye toward problem solving and consistent improvement. Proactive customer dispute prevention and early resolution involves planning. It requires monitoring customer feedback for nuggets of knowledge that hold the key to improved goods and services. Yet some organizations fail to gather input from their customers or clients or they gather it but disregard its implications. Gathering feedback during the design of dispute management systems will be important to ensure perceptions that the system is fair and designed with an eye toward fairness rather than simply for the convenience of the institution in the more powerful position (Bingham, 2008).

The ostrich approach to conflict management serves as an invitation to one's competitors. By resolving problems at the lowest levels and using well-trained and empowered employees, organizations can maximize the accomplishment of their missions and make their workplaces more harmonious and profitable.

ELISE AT MAIN STREET BAKERIES

On the advice of her marketing team, Elise and her team decided to hold focus group discussions with a diverse group of her existing customers as well as inviting some noncustomers. All participants were paid for their time, given a tour of a store, and they sampled various products during the introductory period and breaks. The team asked the participants to describe Main Street Bakeries in three words, to discuss why they did or did not shop there, and to share ideas about ways in which the company could appeal to a broader clientele without alienating its current base. In addition to these focus groups, customers were asked to take a survey via a link printed on their receipts in exchange for discounts on products at their next visit.

The information received identified some important areas of improvement for the company. People with household incomes of less than $75,000 per year perceived Main Street Bakeries as being a luxury food boutique in which specialty items were found rather than as their routine grocery store. Even existing customers voiced a desire to see more everyday items at the store in addition to a greater variety of sales or bargains. To address this perception, Main Street Bakeries initiated a marketing campaign using the slogan ''seasonal means reasonable'' through which they promoted a rotation of seasonal vegetables and food items at low prices while stocking a wider price range of items such as pasta, dairy, and canned goods.

The feedback they received from existing customers was used to identify what customers liked the best about the store (things such as the cleanliness, friendliness, and free cooking lessons) as well as the things they liked the least (shortages of fresh baked goods during afternoon hours and long checkout lines). Each individual store used the data collected to develop goals for improvement, with guidance from upper management. Different survey questions were designed to ensure data would be available to assess progress toward goals. Employees at all levels of the organization received feedback about their customer service performance and incentives were developed to encourage superior efforts on the part of employees.

As a result, satisfaction among existing customers started to rise and new customers started coming in. The stores seemed reinvigorated.

KEY TERMS

Business-to-business (B2B)
Customer loyalty programs
Customer satisfaction
Customers as business partners
Mandatory arbitration clause
Relationship management

SUGGESTED SUPPLEMENTAL READING

Cheng, L.-Y., Yang, C.-C., & Teng, H.-M. (2012). An integrated model for customer relationship management: An analysis and empirical study. *Human Factors and Ergonomics in Manufacturing & Service Industries*. doi: 10.1002/hfm.20343.

Drahozal, C. R., & Rutledge, P. B. (2012). Arbitration clauses in credit card agreements: An empirical study. *Journal of Empirical Legal Studies*, *9*, 536–566.

Friedman, R., Olekalns, M., & Oh, S. (2011). Cross-cultural difference in reactions to facework during service failures. *Negotiation and Conflict Management Research*, *4*, 352–380.

DISCUSSION QUESTIONS

1. Think, pair, share: What type of customer service information does your organization gather and analyze? How could that data gathering and analysis be improved?
2. What customer loyalty programs do you participate in? Are they effective tools for attracting or retaining your business? Why or why not?
3. Describe your best and worst customer service experiences. What differentiated the approach of these two organizations or their employees that made the difference?

EXERCISES

1. Make a list of the most common complaints from your customers, clients, patients, or stakeholders. How does your organization catalog, study, prevent, and resolve these disputes? What do the measures of client satisfaction tell you about how these are working?
2. If your organization is not gathering the information needed to fully answer question one, create one or more questionnaires you would use to gather this information.
3. Does your organization use a mandatory arbitration clause in its employment or consumer contracts? How is this perceived? What are the costs and benefits implicit in your organization's decision to use or not to use such clauses?

GOAL SETTING

Use the information in this chapter to devise one or more improvements to your current customer satisfaction system. If you are on the front lines of customer service delivery, incorporate one change to your current methods and the measures necessary to gauge how well it works.