

SECTION II, Chapter 07

Customer Service and Claims Management



Introduction

The purpose of this chapter is to empower the contractor and his/her staff to expedite steps to mitigate and/or minimize construction problems that may potentially impact the contractor's liability.

The focus in this chapter is on the steps that a contractor can take in-house and/or with his/her subcontractors. In addition, contractors need to recognize and take steps to minimize potential problems posed in some cases by their own insurance carriers, as will be discussed in Chapter 08.

While contractors obviously want to avoid customer claims for construction defects, on occasion things may go wrong, defects may occur and claims may arise. One of the tools in the arsenal of defensive mechanisms is the management of such claims in a manner that minimizes their impact on the ongoing operations and financial performance of the contractor. To assist contractors – and for that matter, subcontractors as well – in addressing the major problems associated with claims management activities, this chapter groups those problems into four basic categories, as outlined below. The chapter closes with sections on conclusions/summary and identification of the resources available if members of the NWCA want further information.

This chapter covers the following:

- 7.01 Defining the problem in terms of customer expectations
- 7.02 Establishing customer service processes and procedures
- 7.03 Ensuring competency of contractor's field and office staff
- 7.04 Addressing subcontractor related problems
- 7.05 Conclusions
- 7.06 Resources

7.01 Defining the problem in terms of customer expectations



Some problems are obvious and so are the “fixes” – a plumbing fixture leaks, a light switch doesn’t work – the list goes on. Some are less obvious and appear several months after the customer takes possession of the property. All such defects – large and small – must be addressed promptly and efficiently in a manner outlined later in this section.

But the more difficult problems of defining and addressing potential construction defects rest in the gray area which may be labeled “customer expectations” – the customer’s ideas and/or understanding about what constitutes satisfactory performance. A pro-active plan for anticipating, shaping and meeting customer expectations addresses three major areas: (a) developing and implementing a company-wide policy on customer complaints and claims, (b) defining performance standards for both company personnel and the customer, and (c) ensuring that company personnel respond appropriately.

(a) Developing and Implementing a Company-Wide Policy

One of the responsibilities of management in construction companies – in fact, in companies in every industry – is to set forth and continuously reinforce company-wide policies for addressing customer complaints about potential construction defects. In the absence of any such policies, employees are likely to act independently depending upon their personal reactions to the complaint and/or in a manner that reflects their perception of their supervisor’s position on such subjects. Obviously, if the owner or manager tends to ignore or minimize customer complaints and claims, then employees will generally do likewise. In such instances, office personnel will be less than fully responsive to customer inquiries. Field personnel, if and when they even

become involved, may make every effort to shift the blame to someone other than their employer and also may use “quick fixes” that last only long enough for the contractor to move onto another location.

As many contractors are well aware, today’s buyers are far more likely than in the past to seek some form of redress. Such actions cover the spectrum that includes negative stories and pictures in the public press or on TV, new ordinances by local political bodies, new laws at the state level and all too often legal actions brought by lawyers only too willing to take on contingency cases.

To avoid such negative consequences, many contractors and subcontractors have found that it is cost efficient to adopt specific, proactive policies and programs for addressing customer complaints and claims that clearly communicate to all company personnel the importance of solving such complaints and claims if there is any reasonable means of doing so. In fact, some companies even use their written customer complaint programs as a selling tool in convincing potential customers that not only will they receive a better product but also they will be treated more fairly and equitably in doing so.

These companies know that the key to resolving and/or mitigating the impact of customer complaints is the use of a company-initiated program of responding promptly to customer complaints, taking the initiative in calling the customers to advise on status and following up to ensure the customer is satisfied. The opposite policy of only reacting to customer-initiated contacts, failing to return calls and generally appearing to be “hard to contact” creates an opportunity for little problems to escalate into bigger ones, real or imagined.

A contractor’s customer service policy need not be extensive, but it should be in writing and continually reinforced by management. At a minimum, such a policy should state, “It is the policy of this company to respond within 24 hours to all customer requests for service, assistance and/or complaints. Such response shall be conducted in a polite and courteous manner regardless of the customer reaction. The response shall include a date certain by which company personnel will either meet with the customer or otherwise personally address the issues raised by the customer.”

And, of course, these companies usually back their written policies and programs with some of the specific action steps discussed in Paragraphs (b) and (c) below.

(b) Defining Performance Standards

There are at least three major types of written documents that help to define performance standards for contractors and their customers.

1. The first “line of defense” in this regard is whether or not the particular issue at hand “meets code” - that is, meets the standard set forth by the International Residential Code (IRC) in all states and local communities that have adopted the IRC. The IRC is more prescriptive than the previous international building code known as the International Building Code (IBC). However, like its predecessor, the IRC still leaves substantial areas open to interpretation by builders and inspectors, whether state and local government

employees or private parties. More pragmatically, the IRC was never designed as a tool for resolving consumer complaints and hence has only limited value in addressing customer expectations.

However, it is a useful first step to assure prospective customers that their new home will be built in accordance with the building code in all communities where the code has been adopted. Further, in those communities which use state or local building inspectors, contractors can offer further assurance to their customers by pointing out that when inspectors sign-off at each specific stage in the construction process, they are signifying that the structure “meets code” in that regard. (The NWCA takes no position on whether customers should be told that sign-off is essential before occupancy is granted in most communities, but that the building inspector has no legal responsibility if defects occur that cause damage.)

2. To fill the gap caused by the lack of specificity in the IRC, the National Association of Home Builders (NAHB) and some other private and public agencies, have prepared written publications that provide guidelines for both builders and customers on the level of workmanship that constitutes satisfactory performance. These publications have been designed to address many of the customer complaints experienced by industry personnel over many years. (As an example, see the Resources Section at the end of this chapter for information on how to obtain the NAHB publication entitled “Residential Construction Performance Guidelines”.) Some contractors include a provision in their contracts stating that the customer has read said publication and agrees to the guidelines set forth therein.
3. To some builders (and their financing sources) an even more important tool is the use of a builder’s limited warranty policy as a part of the contract between the builder and home buyer. A well-designed residential warranty actually serves three major purposes:
 - It defines the builder’s standards of performance, often in considerable detail, and prescribes the responsibilities for builder and buyer in the case of deficiencies in meeting those standards. Thus, a review of the warranty document before construction and during closing helps to shape the customer’s expectations about the final product.
 - It spells out the processes that both parties agree to follow both in efforts to meet the standards and in the event there is disagreement whether those standards have been met.
 - It prescribes specific roles for third parties both in trying to remedy the problem and in reaching a final solution short of litigation.

While there are a variety of residential warranty policies available, the NationWide Contractors’ Alliance recommends the warranty administered by Professional Warranty Service Corporation (PWC) of Annandale, Virginia. PWC provides a warranty document that contains a 21-page section entitled ”Standards of Performance” that covers an extensive range of materials,

processes and systems in residential homes. It also spells out the responsibilities of the contractor and homeowner (if any).

Two examples of a specific item of work (in this case “poured” concrete) illustrate the type of detail contained in the “Standards of Performance” as shown below:

“Deficiency or condition: (a) cracks in basement foundation walls

“Years covered: 1

“Our responsibility: Shrinkage cracks are common in concrete foundation walls.

WE will repair all cracks more than 1/8” wide

“Your responsibility: none”

“Deficiency or condition: (b) cracks in basement floor

“Years covered: 1

“Minor cracks in basement floors are normal. WE will repairs cracks more than 3/16” wide or 1/8” in vertical displacement.

“Your responsibility: none”

The list goes on to cover six other potential deficiencies in poured concrete structures alone. While this particular item of work listed no specific responsibilities for the home buyer, there are numerous cases in which a specific home buyer responsibility is included.

The foregoing example constitutes a major step in defining the responsibilities of both parties and hence plays a significant role in helping to shape customer expectations at the outset of the job. (For assistance in obtaining further information on the PWC warranty, see the Resources Section of this chapter.)

(c) Ensuring That Company Personnel Respond Appropriately

It should be noted that if a contractor incorporates the above types of documents into its contract with the customer, that contractor needs to ensure that his/her own employees are also well versed in the contents of those documents, particularly in dealing with today’s more sophisticated (and potentially more litigious) home buyers.

While contractors often devote extensive efforts to training field personnel in safety and other job-related issues (required by law in some states), these same contractors may devote little or no effort to training in-house staff on customer service policies and procedures.

7.02 Establishing customer service processes and procedures



Customer service problems start with a lack of defined policies and procedures, often coupled with poor communication techniques. All too often, contractors simply hand off customer complaints to field personnel with a brief instruction to “go fix it.” Any real definition of the customer’s problem, the steps to be undertaken, the adequacy of “the fix” and the method of ensuring customer satisfaction are all left to chance. In these types of cases, all too often the contractor files the complaint when the employee closes the matter by reporting, “I took care of it.”

Sometimes that is the case. But in our increasingly litigious society, small problems have a way of growing into bigger ones, with the inevitable series of claims, counterclaims, and even lawsuits.

If office personnel act only as “relays” in passing on customer complaints and/or service requests to the assigned field person, the latter may wind up unprepared to address the real problem upon arrival. The field person may also be met by a multitude of other problems, real or imagined, and will be expected to respond because he/she is the company representative on the spot.

While there is a considerable library of books, articles and brochures on the subject of customer service, the reality is that each contractor needs to review selected materials and then develop a procedure that fits his/her own operation. However, an effective process for dealing with customer complaints should include the following elements:

1. Identify in an objective fashion the type of person and/or emotional state of the customer. Is this the second or third effort to communicate? Is the person a constant complainer? Is he/she a nitpicker on small items? The purpose is to give the field staff some insights on the type of person they are going to encounter, not necessarily to assume the customer’s emotional state beforehand.
2. Measure the customer’s degree of concern about the complaint by asking questions such as, “When did you discover the problem?”, “What difficulties is this causing for you?”, “Are your concerns more immediate or longer term?” and the like.

3. Define the problem as closely as possible, including questions such as, “Tell me as best you can what is wrong?”, ”Is this related to anything else?”, “Do you have any other problems that need to be addressed?” and the like.
4. Get customer agreement on the action that will solve the problem (always with the proviso that the final definition will depend upon inspection by the company’s field staff) and also get agreement on a timetable for taking action.
5. Dispatch field personnel in accordance with the timetable agreed upon above.
6. Require that field personnel always obtain the customer’s signature on the work order in a specific space that also contains a preprinted statement that the work has been done in a satisfactory manner and that the customer is satisfied that the problem has been solved.
7. Install a call-back procedure in which the office staff automatically calls the customer within the next week to ensure that the problem(s) has been solved and the customer is satisfied.

Many companies now use a printed customer service request form that at best eliminates some personal contact between the builder and his/her customer and may even set up an impersonal barrier between the two parties. The form is sometimes available to the customer in a homeowner’s guide furnished to the buyer, passed out with other documentation furnished to the customer, or made available online. In such instances, the onus is placed on the homeowner to fill out and transmit an impersonal form to the contractor in all cases except emergencies. With this procedure opportunities more clearly defining the problem(s) in understandable terms, for measuring the customer’s expectations, and for evaluating the customer’s mood and attitude are clearly lost.

Contractors might be well advised to consider a customer service request process that places maximum emphasis on communication between the two parties. The first step is to invite and facilitate direct communications by telephone, as well as fax and email. The second is to collect essential information in a person-to-person exchange between the contractor and the customer. In order to collect the information required, a sample customer service request form is attached at the end of this chapter as Exhibit A.

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Almost every general contractor in residential construction has experienced the “customer from hell” who seemingly cannot be satisfied by any “solutions” proposed by the contractor. However, the foregoing action plan in this section can have a major impact on improving the contractor’s ability to resolve whatever problems may arise in both routine and more difficult situations.

7.03 Ensuring competency of contractor's field and office staff



The number one step in assembling a competent office and field staff to address customer service problems (as is also the case in hiring employees for any other position) is to conduct background checks and drug testing. Of course, if the use of company vehicles is anticipated, a review of the potential employee's driving record is also an essential step in order to obtain improved insurance rates and to avoid unnecessary liability.

A second step is to ensure, through the same reference and background checks and pre-hiring testing, that the prospective employee has the necessary experience and training. All too often, some contractors opt to hire a beginner that shows promise on the rationale that (a) they reduce payroll costs and (b) there is an opportunity to train the prospect to "our own way of doing business." All too often that contractor winds up paying for the inevitable mistakes that even good beginners make and then losing a well trained employee to a competitor. In fact, there have been instances where companies have brought outside trainers in to work with staff personnel, rather than send them to outside industry training programs and seminars where other companies have an opportunity to hire them away.

The subject of employee selection and training has been thoroughly covered in various industry and trade association publications. Contractors and subcontractors are advised to utilize some of the excellent publications and courses available in this broad area of management expertise. Some resources available to assist contractors and subcontractors in this regard are contained in the Resources Section of this Chapter under the headings entitled "Contractor Hiring Resources" and "Drug Testing and/or Reference Checks."

7.04 Addressing subcontractor related problems



Subcontractors, of course, may suffer from the same problems as general contractors, in terms of lack of policies and procedures and competency of office and field personnel in dealing with customer complaint issues.

A subcontractor's reputation for responsiveness in dealing with customer complaints is always a good indicator of future performance in this regard. However, outside of this general information, it is probably not realistic to expect general contractors to have the staff, knowledge and time to fully investigate potential subcontractors. (Chapter 06 of this educational program, entitled "Selection of Subcontractors – A New Area of Risk Management" contains some information and techniques that may be helpful in minimizing risks when hiring subcontractors.)

There are several "hammers" available to the general contractor to ensure that customer complaints are dealt with promptly, thoroughly and satisfactorily, without coming back to haunt the general contractor. These include:

1. Specifying in the contract with the subcontractor that a certain percentage (up to five percent, for example) will be held back from final payment for a specified period and/or until a specified event such as owner sign-off occurs.
2. Requiring information on the subcontractor's bond, if applicable (in most states, removal of the bond would negate the subcontractor's ability to obtain and/or retain his/her license).
3. Developing in-house knowledge of the appropriate sources and procedures for contacting the state licensing authority about subcontractor performance. Some resources available to assist contractors and subcontractors in this regard are contained in the Resources Section of this Chapter under the heading entitled "Contractor Licensing."
4. Specifying in the contract that the general contractor reserves the right to designate a specific subcontractor(s) to serve on standby in case the original subcontractor does not perform the necessary follow up service work. Such follow up work would, of course, be paid by the original subcontractor and/or taken from any funds withheld from final

payment as discussed above. In fact, in some cases involving large single-family or condo developments, it may make sense to have a special subcontractor with outstanding customer service skills to do all call back and cleanup work required.

7.05 Conclusion

Even in the case of experienced, knowledgeable contractors and subcontractors, accidents do happen and mistakes do occur. Proper management of any resulting claims is important in order to minimize the financial and time impacts of those negative events.

Good claims management is part of an ongoing management process, not a one-time action sheet to be consulted when, and if, a customer complaint or claim is received. This process starts with the development of a company wide customer service policy and program that:

- Encourages direct personal contact between the contractor and the home buyer
- Spells out specific procedures to be followed
- Incorporates efforts to select and hire competent staff
- Ensures that both field and office personnel are adequately trained
- Works with the customer to provide prompt response to customer service requests
- Assigns responsibilities between the contractor, subcontractor, third party warranty administrator, and administrative systems provider, as applicable
- Provides for follow up and eventual customer sign off

Increasingly, insurance carriers are looking beyond loss control reports in assessing customer risks and hence in determining insurance rates. Evidence of proactive steps to minimize and mitigate risks by such contractor actions as participation in education programs, use of contract management specialists, installation of claims management procedures and the like are all becoming more important in the assessment of contractor risks and ultimately insurance costs.

As noted, this chapter lays out a program for improving claims management policies and processes within the contractor's organization. A related step is how the contractor deals with a variety of insurance issues in working with the insurance carrier and/or its agents on claims issues. This subject is covered in Chapter 08 which is entitled "Insurance Carriers' Claims Services."

7.06 Resources

Some of the key sources for additional information on the subjects discussed in this chapter are:

1. NAHB Publications. Contact BuilderBooks at www.BuilderBooks.com or 800-223-2665 for a catalogue of all NAHB publications.

2. PWC Warranties. For further information on PWC residential warranty program, contact Professional Warranty Corporation online at <http://www.pwsc.com> or by telephone at 800-850-2799.
3. Contractor Hiring Resources. Among the resources available are:
 - <http://www.constructionjobs.com/> Nationwide service in which employers in the construction industry post job openings and job seekers post their resumes
 - <http://www.ihireconstruction.com/> Additional list of job openings and job seekers in the construction industry
 - <http://www.constructioncrossing.com/lcpostnowjob.php> Provides extensive list of job openings at major construction companies, as well as those posted in employer web pages and job board listings.
4. Drug Testing and/or Reference Checks. Among the resources available are:
 - <http://www.premierinfosource.com/> Premier InfoSource is a nationwide drug testing and employment screening company.
 - <http://www.backgroundbureau.com/index.asp/> Background Bureau is a nationwide drug testing and employment screening company.
 - <http://www.castlebranch.com/> Castle Branch is a nationwide drug testing and employment screening company.
5. Contractor Licensing. Among the resources available are:
 - <http://www.contractors-license.org/> Provides contractor exam services including exam preparation, continuing education courses and reference materials. Also includes licensing information by state.
 - http://www.clsi.com/state_contractor_license_board.htm/ The National Contractors Licensing Service provides information on contractor licensing requirements by state. It also has exam preparation material where applicable.



EXHIBIT A

Date _____

CUSTOMER SERVICE REQUEST – SAMPLE FORM

Home Owner: _____

Address: _____
(Street) (City) (State & ZIP)

Day Phone: () _____ Evening Phone: () _____

Email: _____

Other Contact Information: _____

Customer Profile:

1. Attitude: upbeat | calm | excited | angry | threatening (circle one).

Comments: _____

2. Timing: emergency | recently discovered | aware for some time (circle one).

Comments: _____

3. Define Problems:

First: _____

Second: _____

Third: _____

Others (use reverse side if necessary): _____



EXHIBIT A

4. Action Steps:

Does homeowner have Homeowners Guide? Y / N Have they read it? Y / N

What action is customer requesting? _____

Is Company Inspection Required? Y / N. Appointment on: _____

Skip inspection, assign service crew. Appointment on: _____

(FOR COMPANY USE ONLY)

Responsibility: _____

- Contractor - assigned to: _____
- Subcontractor – contacted: _____
- Third party warranty – contacted: _____
- Appliance or systems provider – contacted: _____

Action Taken (describe and/or attach additional pages as necessary):

Close Out:

Date Completed: _____ Customer Signature on Work Order: Y / N

Contractor Letter Thanking Customer Sent - dated: _____

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1. The key(s) to quick resolution of customer complaints is...
 - a) A quick initial response to the customer
 - b) Follow up on the status of the complaint
 - c) Using a company initiated program for customer service
 - d) **All of the above**

2. Three major types of written documents that help define performance standards for the building industry are:
 - a) The original agreement between contractor and buyer, mortgage papers, lease
 - b) **A warranty policy, IRC building code, NAHB approved guidelines**
 - c) Complaint form, builder's license, safety training manual
 - d) Subcontractors license, contractor's license, building permit

3. An important tool as part of the contract between the builder and home buyer is...
 - a) Code inspection
 - b) Developing very specific claim forms
 - c) Publishing listed sources for claim filing procedures
 - d) **A builder's limited warranty policy**

4. Which answer below is a good example of a process for dealing with customer complaints?
 - a) Identify objectively the emotional state of the customer
 - b) Have specific questions ready to measure customer's degree of concern
 - c) Get customer agreement on action and timetable for solving problem
 - d) **All of the above**

5. The maximum emphasis in a customer service request process should be placed on...
 - a) The availability of the field expert
 - b) **Communication between the contractor and the customer**
 - c) Communication between the front office and customer
 - d) Communication between the insurance agent and the contractor

6. Background checks and drug testing can be effectively used to...
 - a) Stop claims
 - b) **Ensure competency of office staff**
 - c) Stop all litigation possibilities
 - d) All of the above

7. A general contractor cannot by law, hold back any portion of payment to the sub.
 - a) True
 - b) False**

8. Good claims management includes all but one of the following...
 - a) Encourages direct personal contact between the contractor and the home buyer
 - b) Ensures that both field expert and office personnel are adequately trained
 - c) Spells out specific procedures to be followed
 - d) Gets “a fix” in place as fast as possible**

9. Evidence of pro-active steps to minimize and mitigate risks by a contractor could very possibly...
 - a) Lower insurance costs**
 - b) Eliminate claims by customers
 - c) Ensure the contractor will win if litigation happens
 - d) All of the above

10. A well-designed residential warranty policy serves which major purpose(s) in addressing customer complaints:
 - a) Defines the builder’s standards of performance
 - b) Spells out processes that both parties agree to follow
 - c) Prescribes specific roles for third party involvement
 - d) All of the above**