Conflicts and disputes affecting the governance of companies, family firms, financial institutions, and state-owned enterprises are widespread in developed and developing countries alike. To effectively meet the increasing demand for corporate governance dispute resolution services, ADR experts need to familiarize themselves with the subject of corporate governance and understand how such disputes may differ from other disputes. Corporate governance dispute resolution experts can play a significant role in advising boards, facilitating strategic and sensitive discussions, training directors, and resolving corporate governance disputes.

THIS MODULE PROVIDES
A standard course in corporate governance dispute resolution for dispute resolution experts. The course should be adapted and tailored to local needs and target audiences. It includes:

- Course outline
- Training notes
- Table of contents
- PowerPoint presentation
MODULE 3
CORPORATE GOVERNANCE TRAINING FOR DISPUTE RESOLUTION EXPERTS

COURSE OUTLINE

Conflicts and disputes affecting the governance of companies, family firms, financial institutions, and state-owned companies remain widespread in developed and developing countries alike. Left unresolved, these disputes can paralyze the board, destroy business relations, deter investors, and prove costly. ADR skills and processes can help prevent and effectively deal with corporate governance disputes. The board’s role is to ensure that disputes are prevented or resolved effectively. This includes seeking third-party expertise to:

- Advise on ADR processes and dispute resolution strategies
- Facilitate board retreats and conversations among parties to the dispute
- Train directors to apply dispute resolution skills
- Mediate or arbitrate corporate governance disputes

To effectively meet the increasing demand for corporate governance dispute resolution services, ADR experts need to familiarize themselves with corporate governance issues and understand how such disputes may differ from other disputes.

Target Audience
- Mediators, negotiators, arbitrators
- Lawyers
- Conflict resolution experts and researchers
- Change management consultants
- Human resource consultants
- Meeting facilitators

Objectives

By the end of the course, participants will understand:

- Corporate governance’s purpose and importance
- Corporate governance disputes — what they are, how they differ from other commercial disputes, and how they affect companies and their stakeholders
- Who is involved in corporate governance disputes and their roles in achieving a resolution
- Prevention and resolution of corporate governance disputes
- Dispute resolution experts’ roles and services
- Board’s role in properly preventing and addressing corporate governance disputes
- Dealing with corporate governance disputes through a role play exercise

Course Delivery

The course can be run independently or in conjunction with other mediation or ADR courses.

The course can be shortened, expanded, or adjusted to meet the participants’ needs.

Trainers should be familiar with corporate governance issues and ADR processes.

FOR ROLE PLAYS TO BE USED IN CONJUNCTION WITH THIS COURSE, SEE VOLUME 3 ANNEXES 4-7.
Training Notes
Corporate Governance Training for Dispute Resolution Experts

<table>
<thead>
<tr>
<th>TIME</th>
<th>TOPIC</th>
<th>COURSE ACTIVITY</th>
<th>TOOLKIT REFERENCES</th>
</tr>
</thead>
</table>
| **10 MINUTES** | **Introduction:** Learning Objectives | **Show slide S1 (Title Page).**  
- Welcome the participants, introduce yourself, and ask participants to introduce themselves briefly.  
- Elicit groundrules (timekeeping, cell phones, etc.).  
**Show slide S2 (Objectives).**  
- State course objectives.  
- Present the training notes and shape participants’ expectations of what they will achieve during training.  
- Emphasize that participants’ experiences and insights will be sought throughout the course.  
- Stress that the course is about resolving corporate governance disputes, not learning dispute resolution skills and processes. | Vol. 3 An. 1       |
| **5 MINUTES**  | **Quiz:** Warm-up Discussion               | **Show slide S3 (Quiz: Questions).**  
- Review both examples.  
- Ask participants whether the facts are true or false.  
**Show slide S4 (Quiz: Responses).**  
- Explain the difference between “debate” and “dispute.”  
- Emphasize the costs to companies and shareholders of prolonged corporate governance disputes. Cite an example. | Vol. 1 Mod. 2       |
| **15 MINUTES** | **Presentation:** Corporate Governance Overview | **Show slide S5 (What Is Corporate Governance?).**  
- Define corporate governance.  
- Explain how managers, shareholders, and the board relate to each other.  
- Check if participants understand the differences between managers and directors.  
**Show slide S6 (What Are the Main Competing Tensions?).**  
- Explain the natural tensions between managers, shareholders, and directors.  
- Ask participants to provide examples.  
- Note that corporate governance is a fertile terrain for disputes.  
**Show slide S7 (What Are the Pillars of Good CG?).**  
- Carefully explain the principles of:  
  - Transparency  
  - Accountability  
  - Fairness  
  - Responsibility  
- Ask participants to provide examples. | Vol. 1 Mod. 1       |
<table>
<thead>
<tr>
<th>TIME</th>
<th>TOPIC</th>
<th>COURSE ACTIVITY</th>
<th>TOOLKIT REFERENCES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Show slide 8 (Why Is CG Important?).</td>
<td>Vol. 3 An. 9</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Review the business case for CG.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Indicate that these findings have been confirmed by many academic studies. (Provide a reading list for interested participants.)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Invite participants to ask questions and share experiences.</td>
<td></td>
</tr>
<tr>
<td>15 MINUTES</td>
<td>Presentation: CG Disputes</td>
<td>Show slide 9 (What Are CG Disputes?).</td>
<td>Vol. 1 Mod. 1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Explain the nature of CG disputes.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Differentiate CG disputes from other disputes.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Stress that not all disagreements are disputes — the board must have robust debate.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Show slide 10 (Who Are the Parties to a CG Dispute?).</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• List the various parties.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Explain the differences between internal and external constituencies.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Show slide 11 (Who Are the Other Stakeholders?).</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• List the various stakeholders who may be involved in CG disputes.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Use the example of “employees” to distinguish CG disputes from commercial ones.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Show slide 12 (What Types of Companies Are Affected?).</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Stress that all types of companies are affected.</td>
<td></td>
</tr>
<tr>
<td>25 MINUTES</td>
<td>Group Activity: CG Disputes</td>
<td>Show slide 13 (Exercise: Thinking about CG Disputes).</td>
<td>Vol. 1 Mod. 3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Divide participants into three groups to brainstorm for 10 minutes about:</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Typical boardroom disputes</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Typical shareholder disputes</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Typical CG disputes in family firms</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ask one person from each group to report back. Allow two minutes for each report.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Add examples to those that each group presents.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ask participants if they have ever facilitated, mediated or resolved such disputes. If so, what have they learned from those experiences?</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Show slide 14 (Internal and External Disputes).</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Distinguish internal and external disputes, and provide examples for each.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Show slide 15 (Issues in Family-Firm Disputes).</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Review the main issues that emerge in family-firm disputes.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ask participants for examples.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Show slide 16 (Common CG Disputes in Brazil).</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Summarize the discussion using Brazil as an example.</td>
<td></td>
</tr>
<tr>
<td>TIME</td>
<td>TOPIC</td>
<td>COURSE ACTIVITY</td>
<td>TOOLKIT REFERENCES</td>
</tr>
<tr>
<td>--------------</td>
<td>------------------------------</td>
<td>---------------------------------------------------------------------------------</td>
<td>--------------------</td>
</tr>
</tbody>
</table>
| 5 MINUTES    | Presentation: Impact of CG Disputes | Show slide S17 (What Is the Impact of a CG Dispute?).  
- Review potential impact of CG disputes.  
- Note importance of overall impact of CG disputes on a company and its stakeholders — beyond the parties directly involved in the dispute. | Vol. 1 Mod. 2      |
| 5 MINUTES    | Presentation: Board’s Role    | Show slide S18 (What Should Be the Board’s Role?).  
- Focus participants’ attention on the board’s “duty of care,” which includes:  
  - Ensuring disputes are resolved effectively and efficiently in the company’s best interests  
  - Preserving business relationships  
  - Providing for adequate risk management  
- Note that understanding the board’s role is important for dispute resolution (DR) experts working on CG disputes. | Vol. 2 Mod. 1      |
| 20 MINUTES   | Coffee Break                 | Show slide S19 (Coffee Break).                                                   |                    |
| 5 MINUTES    | Discussion: Role of CG DR Experts | Show slide S20 (How Can DR Experts Help?).  
- Ask participants what type of services could DR experts provide to help prevent and resolve CG disputes.  
- Draw participants’ attention to the following functions:  
  - Advising  
  - Facilitating  
  - Resolving  
  - Training  | Vol. 1 Mod. 3  
Vol. 2 Mod. 2 |
| 10 MINUTES   | Presentation: CG DR Consulting Services | Show slide S21 (Advising on the Use of ADR Processes).  
- Briefly present the spectrum of ADR processes.  
- Emphasize that boards need guidance on understanding and selecting appropriate ADR processes for their circumstances.  
Show slide S22 (Advising on CG DR Strategies).  
- Indicate the steps that a board must go through to develop effective dispute prevention and resolution strategies.  
- Note that a board may need to hire external experts to help discuss and design such strategies.  
Show slide S23 (Facilitating Board Discussions).  
- Explain that DR experts can be invited to facilitate board retreats, discussions about strategy or evaluation sessions.  
- Using the questions on the slide as examples, outline how DR experts can help boards assess ways to address disputes and surface issues related to the board’s conflict-management style. | Vol. 1 Mod. 3  
Vol. 2 Mod. 1 |
<table>
<thead>
<tr>
<th>TIME</th>
<th>TOPIC</th>
<th>COURSE ACTIVITY</th>
<th>TOOLKIT REFERENCES</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 MINUTES</td>
<td>Presentation: CG DR Training Services</td>
<td><strong>Show Slide S24 (Training Board Directors).</strong></td>
<td>Vol. 3 Mod. 2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Note that directors need to better understand the importance and dynamics of</td>
<td>Vol. 2 Mod. 1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Using the slide's list, explain how a DR expert can train directors to</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>better use DR skills in the boardroom.</td>
<td></td>
</tr>
<tr>
<td>20 MINUTES</td>
<td>Discussion: CG DR Services</td>
<td><strong>Show slide S25 (Resolving CG Disputes: Skills).</strong></td>
<td>Vol. 3 Mod. 1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Ask participants about the skills required for good CG DR.</td>
<td>Vol. 1 Mod. 1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Stress that CG DR requires a broad set of interpersonal skills and expertise.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Note that the combination of required skills depends on the nature of the</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>dispute and the parties involved.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Discuss the importance of CG knowledge vs. DR skills.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Show slide S26 (What Makes CG Disputes Special?).</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Draw participants’ attention to what differentiates CG disputes from other</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>types of commercial disputes.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Discuss the implications for CG DR experts.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Show Slide S27 (What Issues May Arise?).</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Discuss with participants the particular issues that may arise when</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>mediating or facilitating a corporate governance dispute. Use the questions</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>listed on the slide for guidance.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Invite participants to think about how best to address these issues.</td>
<td></td>
</tr>
<tr>
<td>20 MINUTES</td>
<td>Role Play: Introduction and Preparation</td>
<td><strong>Show slide S28 (Role Play).</strong></td>
<td>Vol. 3 An. 3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Note that participants will practice CG DR.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Distribute role play background materials. (If possible, distribute</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>background materials before the course or during the coffee break.)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Show slide S29 (Role Play Objectives).</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ State learning objectives.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Explain the steps of the role play.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Show slide S30 (Case Presentation).</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Summarize key points in the background materials. Note that each role</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>player will have confidential instructions.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Outline the dispute.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Show slide S31 (Roles).</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Introduce each role briefly.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Divide participants into as many groups as there are roles.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Distribute confidential instructions for each role.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Ask for a volunteer role player from each group.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Give each group 10 minutes to review the task and coach their role player.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Ask participants if they have any questions before the role play begins.</td>
<td></td>
</tr>
</tbody>
</table>
### Practice

<table>
<thead>
<tr>
<th>TIME</th>
<th>TOPIC</th>
<th>COURSE ACTIVITY</th>
<th>TOOLKIT REFERENCES</th>
</tr>
</thead>
</table>
| **30 MINUTES** | **Case Study:** Phase 1 | **Show slide S32 (Role Play: Phase 1).**  
- Reconvene the groups and ask participants to form a fishbowl or take their seats. | Vol. 3 An. 3 |
|       |       | **Show slide S33 (Phase 1 Instructions).**  
- Set the stage for Phase 1 and ask the role players to perform according to their respective confidential instructions.  
- Invite the rest of the participants to observe.  
- Limit your role to organizing the role play. Do not intervene during the role play.  
- Be mindful of the time and conclude Phase 1 by thanking the role players. Ask participants to applaud the role players.  
- Do not provide a de-brief at this stage. | Vol. 3 An. 4-5 |
| **30 MINUTES** | **Role Play:** Phase 2 | **Show slide S34 (Role Play: Phase 2).**  
- Invite participants to continue with Phase 2 of the role play.  
- Ask the participant playing the peacemaker role to be mindful of the key steps for third-party dispute resolution. | Vol. 3 An. 4-5 |
|       |       | **Show slide S35 (Phase 2 Instructions).**  
- Set the stage for Phase 2 and ask role players to interact according to their respective confidential instructions.  
- Limit your role to organizing the role play. Do not intervene during the role play.  
- Be mindful of the time and conclude Phase 2 of the role play by thanking the role players. Ask participants to applaud the role players. |       |
| **10 MINUTES** | **Processing:** Role play de-brief | **Show slide S36 (Role Play De-briefing).**  
- Ask role players for feedback on the role play:  
  - *How did it feel?*  
  - Ask participants for feedback on the role play:  
    - *Could the dispute have taken a different turn?*  
    - *Was the peacemaker of any help?*  
    - *Were there any issues the peacemaker needed especially to watch out for (e.g. power imbalance; authority of the parties; strong emotions)?*  
    - *Could there have been different solutions?*  
    - *Could the dispute have been prevented?* | Vol. 3 An. 2 |
| **10 MINUTES** | **Discussion:** Questions, Feedback | **Show slide S37 (Questions and Feedback).**  
- Ask participants to summarize the session’s main points.  
- Take questions. Link the discussion back to the learning objectives.  
- Seek feedback. Distribute course evaluation forms.  
- Closure. | Vol. 3 An. 1 |
### Corporate Governance Training for Dispute Resolution Experts

#### Table of Contents

<table>
<thead>
<tr>
<th>Slide</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>S1</td>
<td>Title Page</td>
</tr>
<tr>
<td>S2</td>
<td>Objectives</td>
</tr>
<tr>
<td>S3</td>
<td>Quiz: Questions</td>
</tr>
<tr>
<td>S4</td>
<td>Quiz: Responses</td>
</tr>
<tr>
<td>S5</td>
<td>What is Corporate Governance?</td>
</tr>
<tr>
<td>S6</td>
<td>What Are the Main Competing Tensions?</td>
</tr>
<tr>
<td>S7</td>
<td>What Are the Pillars of Good CG?</td>
</tr>
<tr>
<td>S8</td>
<td>Why is CG Important?</td>
</tr>
<tr>
<td>S9</td>
<td>What Are CG Disputes?</td>
</tr>
<tr>
<td>S10</td>
<td>Who Are the Parties to a CG Dispute?</td>
</tr>
<tr>
<td>S11</td>
<td>Who Are the Other Stakeholders?</td>
</tr>
<tr>
<td>S12</td>
<td>What Types of Companies Are Affected?</td>
</tr>
<tr>
<td>S13</td>
<td>Exercise: Thinking about CG Disputes</td>
</tr>
<tr>
<td>S14</td>
<td>Internal and External Disputes</td>
</tr>
<tr>
<td>S15</td>
<td>Issues in Family-Firm Disputes</td>
</tr>
<tr>
<td>S16</td>
<td>Common CG Disputes in Brazil</td>
</tr>
<tr>
<td>S17</td>
<td>What Is the Impact of a CG Dispute?</td>
</tr>
<tr>
<td>S18</td>
<td>What Should Be the Board’s Role?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Slide</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>S19</td>
<td>Coffee Break</td>
</tr>
<tr>
<td>S20</td>
<td>How Can DR Experts Help?</td>
</tr>
<tr>
<td>S21</td>
<td>Advising on the Use of ADR Processes</td>
</tr>
<tr>
<td>S22</td>
<td>Advising on CG DR Strategies</td>
</tr>
<tr>
<td>S23</td>
<td>Facilitating Board Discussions</td>
</tr>
<tr>
<td>S24</td>
<td>Training Board Directors</td>
</tr>
<tr>
<td>S25</td>
<td>Resolving CG Disputes: Skills</td>
</tr>
<tr>
<td>S26</td>
<td>What Makes CG Disputes Special?</td>
</tr>
<tr>
<td>S27</td>
<td>What Issues May Arise?</td>
</tr>
<tr>
<td>S28</td>
<td>Role Play</td>
</tr>
<tr>
<td>S29</td>
<td>Role Play Objectives</td>
</tr>
<tr>
<td>S30</td>
<td>Case Presentation: MHU</td>
</tr>
<tr>
<td>S31</td>
<td>Roles: MHU</td>
</tr>
<tr>
<td>S32</td>
<td>Roles Play: Phase 1</td>
</tr>
<tr>
<td>S33</td>
<td>Phase 1 Instructions: MHU</td>
</tr>
<tr>
<td>S34</td>
<td>Role Play: Phase 2</td>
</tr>
<tr>
<td>S35</td>
<td>Phase 2 Instructions: MHU</td>
</tr>
<tr>
<td>S36</td>
<td>Role Play De-briefing</td>
</tr>
<tr>
<td>S37</td>
<td>Questions and Feedback</td>
</tr>
</tbody>
</table>
Resolving Corporate Governance Disputes
TRAINING FOR DISPUTE RESOLUTION EXPERTS

Objectives

- Understand corporate governance (CG), its role, and its importance
- Review various types of disputes and the parties involved
- Explore how dispute resolution (DR) experts can help prevent and resolve CG disputes
- Practice resolving a CG dispute

To review adult learning guidelines, see Volume 3 Annex 1.
Quiz: Questions

• Former General Motors chairman Alfred Sloan summed up an executive meeting as follows: “Gentlemen, I take it we are all in complete agreement on the decision here.” As everyone nodded their heads he added, “I propose we postpone further discussion... to give ourselves time to develop disagreement.”

TRUE OR FALSE?

• In 2005, the former president and CEO of Environmental Management Solutions Inc. (EMS), upon his termination, filed several lawsuits against the company and its board. These litigation costs, along with the associated costs of defending against a dissident shareholder requisition led by the former CEO, resulted in restructuring and other charges of $2.5 million over 12 months, ending December 31, 2005.

TRUE OR FALSE?

Quiz: Responses

TRUE

Boards should discuss and debate strategic decisions. Disagreements are not disputes but left unspoken, they may evolve into destructive disputes.

FALSE

According to EMS’s annual report, the direct costs amounted to $5.3 million over 12 months ending December 31, 2005.
What Is Corporate Governance?

“Corporate governance is the system by which companies are directed and controlled....”

SIR ADRIAN CADBURY

What Are the Main Competing Tensions?

“If management is about running business, governance is about seeing that it is run properly. All companies need governing as well as managing.”

PROF. BOB TRICKER, 1984
What Are the Pillars of Good CG?

• **Transparency:** Ensure timely, proper disclosure of financial and non-financial information and any material matters involving the company

• **Accountability:** Provide proper strategic guidance, effective monitoring, and accountability to the company and its shareholders

• **Fairness:** Respect shareholders’ rights; ensure equitable treatment of all shareholders

• **Responsibility:** Engage the company’s stakeholders; respect stakeholders’ rights

Why Is CG Important?

• Mitigates risk

• Reduces vulnerability to financial crises

• Improves corporate performance

• Reduces the cost of capital

• Attracts and retains investors

• Builds better companies, better societies

> “An effective system of corporate governance must strive to channel the self-interest of managers, directors, and the advisors upon whom they rely into alignment with the corporate, shareholder, and public interests.”

IRA MILLSTEIN
What Are CG Disputes?

- Involve corporate authority and its exercise
- Involve the board’s actions or its failure or refusal to act
- Require the board’s attention, regardless of whether the board or individual directors are a direct party to the dispute, to resolve the dispute
- Are NOT issues arising as part of doing business

Not every disagreement is a dispute. Discourse and debate are at the heart of the board’s work. Diverse views and perspectives bring more information into the decision-making process, challenge assumptions, and sharpen the focus of deliberations.

Who Are the Parties to a CG Dispute?

- Shareholders vs. board or a board director
- Board vs. CEO or senior management
- Board director(s) vs. board director(s)
- Board or board director(s) vs. employees’ representative(s)
- Board vs. communities, social activists, or other stakeholders

CG disputes can involve internal and external constituencies
Who Are the Other Stakeholders?

- Contractual relationships
  - Employees
  - Contractors and suppliers
  - Providers of capital
  - Business partners, regulators, accountants, auditors, etc.

- No contractual relationships
  - Communities
  - NGOs
  - Analysts, investor associations, pressure groups
  - Media and other “reputational” agents

What Types of Companies Are Affected?

- Small companies
- Joint venture companies
- Family firms
- State-owned companies
- Listed companies
- Cooperatives

> All types of companies are affected
Exercise: Thinking about CG Disputes

Split into three groups to brainstorm about typical:

- Boardroom disputes
- Shareholder disputes
- CG disputes in family firm

> One person from each group will report back

Internal and External Disputes

<table>
<thead>
<tr>
<th>Internal</th>
<th>External</th>
</tr>
</thead>
<tbody>
<tr>
<td>• New strategies and major transactions</td>
<td>• Mergers and acquisitions</td>
</tr>
<tr>
<td>• Crisis situations</td>
<td>• Takeover processes</td>
</tr>
<tr>
<td>• Board processes</td>
<td>• Share and bond valuation</td>
</tr>
<tr>
<td>• Board composition and succession planning</td>
<td>• Lack of disclosure</td>
</tr>
<tr>
<td>• Conflicts of interest</td>
<td>• Nomination and discharge of board directors</td>
</tr>
<tr>
<td>• Personality clashes</td>
<td>• Remuneration/bonuses</td>
</tr>
<tr>
<td>• Performance issues</td>
<td>• Sustainability and Corporate Social Responsibility (CSR)</td>
</tr>
</tbody>
</table>
Issues in Family Firm Disputes

• Governance and control
• Succession/generational issues
• Personal goals conflicting with company objectives
• Key board and management roles
• Personal perspectives and grievances

> “Conflicts within family firms have a special character. In most cases, what is involved is not merely a difference of opinion about business policy but issues within the family and its history.”

JOZEF LIEVENS

Common CG Disputes in Brazil

<table>
<thead>
<tr>
<th>Issue</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Related-party transactions</td>
<td>61%</td>
</tr>
<tr>
<td>Investment decisions</td>
<td>55%</td>
</tr>
<tr>
<td>Rights of minority shareholders</td>
<td>92%</td>
</tr>
<tr>
<td>Management performance</td>
<td>92%</td>
</tr>
<tr>
<td>Merger &amp; acquisition decisions</td>
<td>45%</td>
</tr>
<tr>
<td>Nomination/appointment of directors &amp; officers</td>
<td>42%</td>
</tr>
<tr>
<td>Dividend decisions</td>
<td>36%</td>
</tr>
<tr>
<td>Financial restructuring &amp; turnarounds</td>
<td>24%</td>
</tr>
<tr>
<td>Remuneration of directors &amp; officers</td>
<td>23%</td>
</tr>
<tr>
<td>Other business strategy, conflicts of agency</td>
<td>12%</td>
</tr>
<tr>
<td>Approval of annual accounts &amp; financial statements</td>
<td>0%</td>
</tr>
</tbody>
</table>
What Is the Impact of a CG Dispute?

- Diverts board resources
- Disrupts board work
- Obstructs company operations
- Delays major strategic decisions
- Undermines company’s reputation
- Reduces market share
- Weakens stakeholder trust and deters investors
- Diverts company financial and human resources
- Impairs growth and harms corporate results
- Entails high litigation, operational, and governance costs
- Triggers breakdown in shareholder relations

What Should Be the Board’s Role?

- Exercise “duty of care”
- Recognize that internal and external disputes may arise
- Understand the risks/threats posed by CG disputes
- Ensure expeditious, effective dispute resolution
- Prevent internal and external disputes
- Understand when to seek external expertise
- Adopt appropriate CG dispute resolution strategies and processes

> “The board’s role is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls.”

UNITED KINGDOM COMBINED CODE(2006)
How Can DR Experts Help?

- Advise on the use of ADR processes
- Advise on developing CG dispute resolution strategies
- Facilitate board retreats and stakeholder meetings
- Mediate CG disputes
- Train directors on preventing and managing CG disputes

> “It is part of the duty of care of the board to ensure disputes are resolved quickly in order to maintain relationships that business people, particularly management, spend their lives building.”

MERVYN KING, SC
Advising on the Use of ADR Processes

Comparing Dispute Resolution Mechanisms

INFORMAL | SELF-DIRECTED ↔ FORMAL | REGULATED

NEGOTIATION  INFORMAL MEDIATION/ FACILITATION
FORMAL MEDIATION/ FACILITATION
NON-BINDING ARBITRATION
BINDING ARBITRATION
COURT

FAST PROCESS | COST-EFFECTIVE ↔ LENGTHY PROCESS | EXPENSIVE

Business Dimension of the Dispute
Legal Dimension of the Dispute


Advising on CG DR Strategies

- Step 1: Plan Ahead
- Step 2: Assess past and present disputes
- Step 3: Anticipate potential disputes
- Step 4: Adopt CG DR policies
- Step 5: Decide who will manage the CG DR process
- Step 6: Identify who will serve as an internal or external peacemaker
- Step 7: Incorporate CG DR provisions in corporate documents
- Step 8: Review the effectiveness of CG DR policies
- Step 9: Remain prepared for litigation
Facilitating Board Discussions

- What was the nature of the dispute?
- How did the board react?
- What was management’s role?
- What are the company’s general practices for dispute resolution?
- What were the dispute’s costs?
- How was the dispute settled?
- What policies and procedures should be improved?
- What disputes may arise?

Training Board Directors

- Listen actively ➔ show genuine interest
- Use open questions ➔ encourage speakers to share
- Clarify reasons ➔ confirm goal and objectives
- Be aware of body language ➔ be friendly and open
- Speak on behalf of yourself ➔ use “I” statements
- Focus on constructive ideas ➔ ask for practical suggestions
- Stay calm ➔ respect different views; reschedule discussions
- Avoid misunderstanding ➔ paraphrase ideas or statements
- Allow others to save face ➔ help reformulate statements
Resolving CG Disputes: Skills

**DR Skills**
- Impartial, independent
- Diligent, discrete
- Responsible, patient
- Trusted
- Active listener
- Non-judgmental
- Consensus builder
- Understanding of the dynamics of disputes and resolution approaches

**CG Skills**
- No vested interests
- Knowledge of CG framework
- Knowledge of CG best practices
- Respected
- Strategic
- Leadership
- Board experience
- Understanding of issues in dispute

What Makes CG Disputes Special?

- Complex issues
- High stakes
- Huge consequences
- Intimidating personalities
- Significant pressures

> “Conflict resolution professionals are uniquely qualified to serve corporate boards in the constructive management of boardroom conflict and to use the energy of conflict to improve, uplift, and advance the company as it seeks to reach its maximum potential.”

RICHARD REUBEN
What Issues May Arise?

- Do the parties at the table have the appropriate level authority to decide?
- Are there any power imbalances among the parties?
- Is there any ambiguity regarding the parties personal and professional identity?
- Are there any status issues to be aware of?
- Are there any strong emotions that need to be channeled?
- Are there any external parties or stakeholders who may influence the decision-making?

Role Play

TO REVIEW ROLE PLAY TRAINING TECHNIQUES, SEE VOLUME 3 ANNEX 3.
Role Play Objectives

• Understand and resolve a dispute involving board members
• Help refocus the board’s attention on strategic issues
• Review the benefits of using a DR expert in the field of corporate governance

Case Presentation: MHU

• Max Henry University (MHU) is a private university facing financial difficulties
• President and one board director dispute donation’s terms
• In exchange for his donation, the director expected the university’s library to be named after his parents
• President argues she never made such a commitment; the library will be named after another donor
• Furious, the director threatens to take back his donation and sue both the university and its president

> How can a damaging lawsuit be avoided while refocusing the board’s attention on strategic issues?
Roles: MHU

- **Maria Helena Santiago** — MHU president and board chairman. She has been the president for the last 15 years. She is 60, and the university is her life.
- **Michael Peruso** — Board director and donor. A self-made man who works long hours. He is 50 and proud of his daughter’s recent graduation from MHU.
- **Juan Fernandez** — Board director and head of the funding committee. He is 38 and an optimistic fundraiser. He was appointed to the board six months ago.
- **Alfonso Lopez** — Seasoned mediator but not a corporate governance expert. He is 58 and has mediated 2,000-plus cases.

Role Play: Phase 1

**FOR MHU AND OTHER ROLE PLAY EXERCISES, SEE VOLUME 3 ANNEXES 4-7.**

**TO REVIEW ROLE PLAY TRAINING TECHNIQUES, SEE VOLUME 3 ANNEX 3.**
Phase 1 Instructions: MHU

- Juan calls a meeting with Maria Helena and Michael to discuss the university’s future funding strategy
- He hopes to find an amicable resolution to the dispute over the donation
- He would at least like to convince Maria Helena and Michael to call in a professional mediator before resorting to litigation

30 MINUTES

Role Play: Phase 2

FOR MHU AND OTHER ROLE PLAY EXERCISES, SEE VOLUME 3 ANNEXES 4-7.

TO REVIEW ROLE PLAY TRAINING TECHNIQUES, SEE VOLUME 3 ANNEX 3.
Phase 2 Instructions: MHU

- Alfonso, the professional mediator, has been called in by Juan to help sort out the dispute over Michael’s donation
- Alfonso received a background briefing from Juan and briefly met with Maria Helena and Michael
- A meeting has been scheduled to help Maria Helena and Michael find a solution
- Maria Helena and Michael both agreed that Juan should also participate in the meeting

30 MINUTES

Role Play De-briefing

- Other possible/better solutions?
- What may happen if no solution is reached?
- Specific issues the external peacemaker needs to look out for?
- Benefits, drawbacks in using external peacemakers?
- Could the dispute have been prevented?