

Conflicts in the Boardroom Survey

Results and Analysis





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INTRODUCTION

In the boardroom, disagreements are often unavoidable—especially when the board is composed of independent-minded, skilled, and outspoken directors. This is not a bad thing. There should be a debate in the boardroom, and decisions should result from a process in which directors consider all reasonably available information. A board that never argues or disagrees is most likely to be an inactive, passive, or inattentive board—in other words, an ineffective board that is neither fulfilling its oversight function nor carrying out its duty of care.

Yet, if boardroom disagreements and/or shareholder conflicts are not dealt with properly, they can devolve into acrimonious disputes that undermine a company's operation and performance. Left unchecked and unattended, these disputes escalate quickly into public matters that can have severe, long-term consequences for the company and its key stakeholders. These disputes can lead to poor performance, scare investors, produce waste, divert resources, cause share values to decline, and, in some cases, paralyze a company.

In 2012, the Centre for Effective Dispute Resolution (CEDR) and the Corporate Governance Group of the International Finance Corporation (IFC) undertook a joint project to explore the causes, nature and methods of resolving corporate governance disputes. As part of this ongoing project, CEDR and IFC carried out a global survey

in late 2013 of 191 directors and board members (including IFC Nominee Directors and members of the Private Sector Advisory Group) to find out about their experiences with and attitudes towards boardroom disputes.

Corporate governance disputes involve corporate authority and its exercise and involve the board's powers and actions—or its failure or refusal to act. These conflicts may arise between the board and its shareholders or between directors and executive management. They may also concern issues among the directors themselves or between the board and other stakeholders. A governance dispute implicates the board in one way or another, as a party or as an active participant, and requires the directors' engagement to resolve the conflict.

About IFC Corporate Governance Group

The Group brings together staff from investment support and advisory operations into a single, global team. This unified team advises on all aspects of corporate governance and offers targeted client services in areas such as increasing board effectiveness, improving the control environment, and family businesses governance. The Group also helps support corporate governance improvements and reform efforts in emerging markets and developing countries, while leveraging and integrating knowledge tools, expertise, and networks at the global and regional levels.

The Group's Corporate Governance Dispute Resolution program aims to equip board directors with knowledge, skills and tools to manage and resolve CG disputes and difficult conversations on the board. Purpose: (i) To reduce the negative impact of disputes on the company's reputation and performance; (ii) To improve the quality and effectiveness of board deliberations. The program brings together CG and ADR specialists to develop knowledge and training products, and guide their implementation.

www.ifc.org/corporategovernance

About Centre for Effective Dispute Resolution

CEDR is a not-for-profit body, founded in 1990, that campaigns for better resolution of disputes and management of conflicts. CEDR's innovative initiatives promote awareness of the need for more effective leadership in collaboration and dialogue and how to achieve it.

CEDR is Europe's largest independent Alternative Dispute Resolution service, which to date has helped over 40,000 parties in commercial disputes. CEDR is the leading negotiation and conflict management trainer internationally acclaimed for its Mediator Skills Training of over 9,000 mediators. It also consults globally on Civil Justice reform and helps business develop conflict management systems.

www.cedr.com

KEY FINDINGS

Our results show the significant effects that boardroom disputes can have on an organization — and the challenges that individual members of those boards encounter in attempting to resolve a dispute at this level. The following are some specific findings from the survey:

- We found that 29.6 percent of respondents had experience with a boardroom dispute affecting the survival of an organization.
- The most common subject matter of board disputes is “financial, structural, or procedural workings of the organization,” closely followed by the “personal behavior and attitudes of directors.”
- Respondents stated that the most difficult factors in resolving board disputes were issues related to competing factions on the board — “handling the emotions of those involved and separating personal from business interest.”
- While 47.8 percent of respondents attempt to mediate board disputes, 34.3 percent admit to frequently being an active party in the dispute, and a further 25.3 percent of respondents frequently take a side of an active party.
- Board members are much more confident that they can resolve an internal board dispute (58.5 percent felt able to resolve these most of the time) than an external dispute involving the board and external stakeholders (just 24.3 percent felt capable of resolving this kind of dispute).
- Disputes are most commonly resolved through internal negotiation (61.2 percent) or internal mediation (25.2 percent). Boards are very reluctant to resort to litigation to resolve such disputes (3.1 percent).
- A significant proportion of respondents (67.2 percent) report that they have encountered unresolved issues. 24.1 percent of small-enterprise respondents report that issues are frequently not resolved, whereas only 5.9 percent of those from medium enterprises and 15.6 percent from large enterprises report frequently unresolved issues.
- Respondents are extremely interested in having training for dealing with personal factors: 74.8 percent described training in the “ability to deal with different personalities” as very useful.
- A gender difference emerged regarding the kinds of skills desired: women are far more interested in receiving training in negotiation skills, and men are more interested in training on how to deal with different personalities.

29.6 percent of respondents had experience of a boardroom dispute affecting the survival of an organization

About the Survey Participants

In October and November 2013, we conducted an online survey of 191 members of corporate boards across the world. Our respondents were experienced board members, with the greatest number (43 percent) having more than 10 years’ experience serving on boards. (See Figure 1 on page 4)

Within their organizations, our respondents were most frequently independent directors (26.2 percent) or non-executive directors (22.7 percent), though we had a significant percentage of respondents who had other positions, such as board chair or chief executive officer of their organization. (See Table 1.)

Respondents represented a full range of organization types, the most common being a private non-family company (26.8 percent) or listed company (22.4 percent). They covered a wide range of sectors, particularly finance and banking (28.8 percent), education (11.5 percent), energy (7.9 percent), public sector (5.8 percent), and insurance (5.2 percent).

Table 1: Roles of Respondents in their Organizations

Independent Director	26.2%
Non-Executive Director	22.7%
Management	18.0%
Executive Director	12.8%
Board Chair	12.2%
CEO	8.1%

Figure 1: Length of Time Respondents Served as a Corporate Board Member

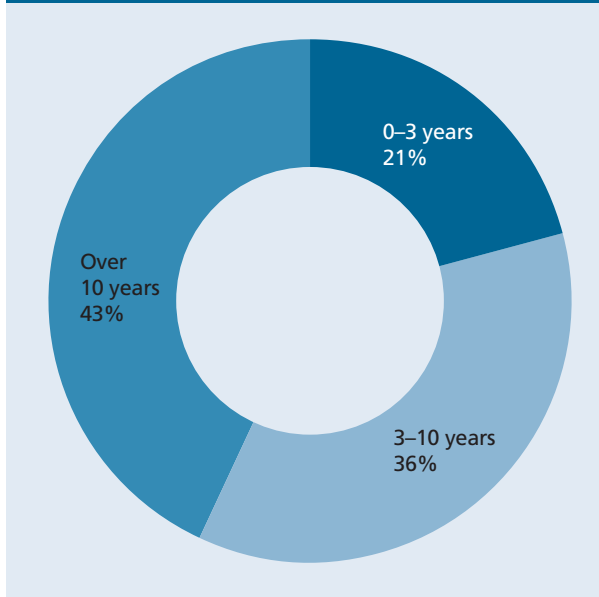
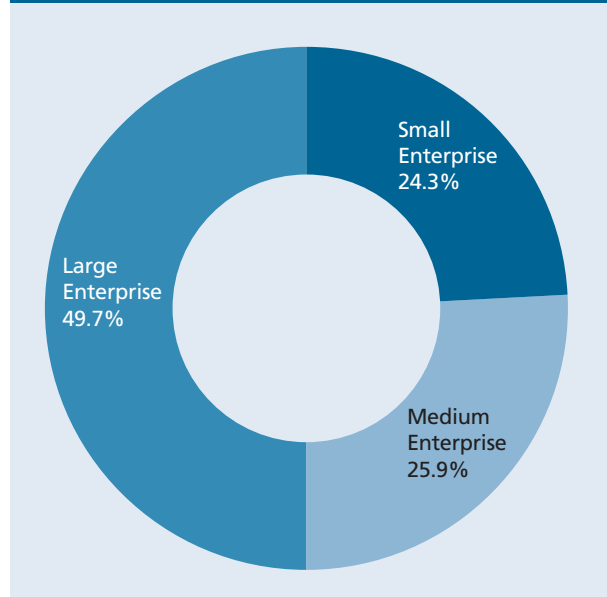


Figure 2: Size of Respondents' Organizations



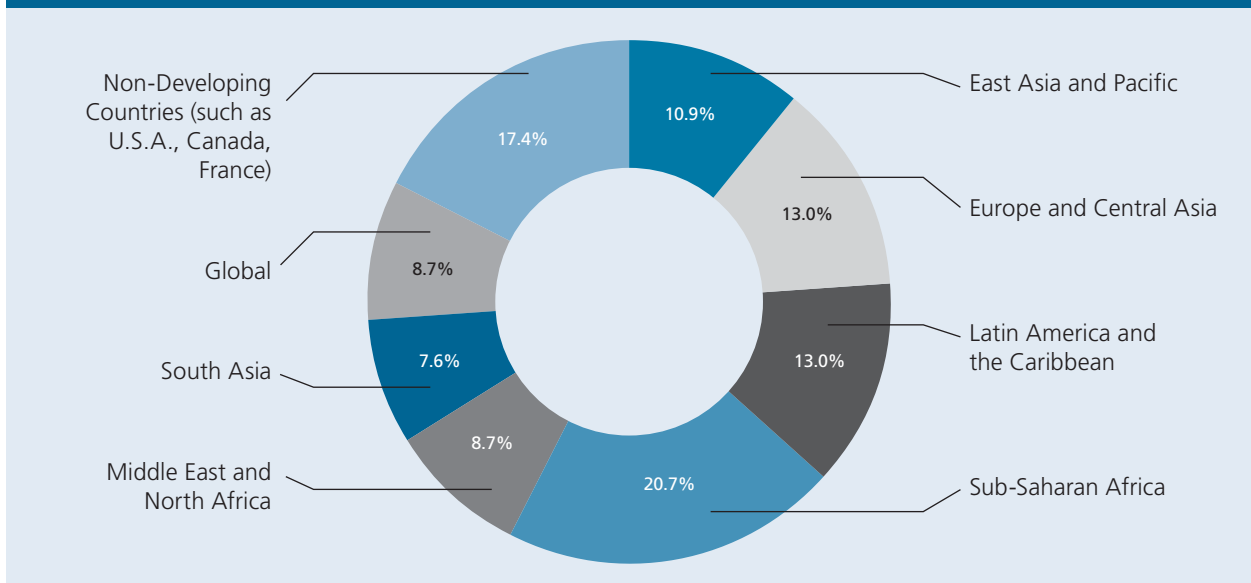
Survey respondents were from organizations of different sizes: 49.7 percent from large enterprises (over 300 employees and total assets over \$15 million); 25.9 percent from medium enterprises (50–300 employees and total assets of \$3 million to \$15 million); and 24.3 percent from small enterprises (up to 50 employees and total assets under \$3 Million). (See Figure 2.)

We also had a global response, with respondents based in a wide range of countries. As shown in Figure 3, the largest

proportion of respondents were from Sub-Saharan Africa, but there were also respondents from all other major areas, including a significant proportion of respondents from non-developing countries.²

Regarding personal factors, 73.6 percent of respondents were male, and 26.4 percent were female; 54.1 percent were over 50 years old, 27.6 percent were 40–50 years old, 11.0 percent were 30–39 years old, and 7.2 percent were under 30 years old.

Figure 3: Countries of Respondents' Organizations



² Country designations are based on World Bank groupings, available at <http://data.worldbank.org/about/country-classifications/country-and-lending-groups>.

Boardrooms in Conflict

All boardrooms have disputes, which not surprisingly cover a wide range of topics. Our survey found that the most frequent subjects of disputes were (in descending order of frequency) 1) the financial, structural, or procedural workings of the organization; 2) the personal behavior and attitudes of directors; and 3) strategy development, including mergers and acquisitions. (See Table 2.)

Table 2: Most Common Topics of Boardroom Disputes

Financial, structural, or procedural workings of the organization	40.3%*
Personal behavior and attitudes of directors	38.4%
Strategy development, including mergers and acquisitions	37.2%
Risk appetite and risk management	31.3%
Change and crisis management	30.6%
Audit findings	29.9%
Board process issues, such as structure of meetings, schedules, etc.	29.4%
Management oversight	28.4%
Composition of board and senior management	24.7%
Involvement of shareholder/owner's family in business	21.7%

*Percentage stating the item was a "frequent" or "very frequent" topic of dispute.

Impact of Disputes

In themselves, disputes are not necessarily a problem for a board; it is when they are mismanaged or become insurmountable that the problem occurs. Considering the impact of these disputes on business priorities (see Table 3), it is important for organizations to tackle them effectively, to ensure that the negative outcomes are minimized.

Table 3: Impact of Boardroom Disputes on Business

Wasting management time	49.3%*
Distracting from core business priorities	44.9%
Reducing trust among board members	42.8%
Affecting the functioning of the board	42.1%
Affecting the efficiency of the organization	38.3%
Negatively affecting relationships within the organization	32.4%
Costing the company money	29.5%
Damaging long-term business performance/profitability	26.8%
Affecting the reputation of the organization	23.7%

*Percentage stating the item had a "significant" or "very significant" impact.

Attempts to Resolve the Dispute

Regarding the roles that those surveyed have taken when disputes have arisen on the board, we received a mixture of responses.

For example, 47.8 percent of respondents stated that when they encountered board disputes, they commonly attempted to mediate the dispute; 34.3 percent admitted that they were frequently or very frequently an active party to the dispute; 25.3 percent said they commonly are not the active party, but take side in the dispute; and 26.5 percent of respondents reported that they frequently or very frequently were neutral in a dispute.³ These figures show that, although board members may think they would try to resolve a dispute, in reality a small majority generally do not adopt this position; rather they take a

stance that is either openly on one side of the dispute or is noncombative (a fight-or-flight response).

The significance of the positions people adopt in relation to conflict can be seen in their choice of how to deal with it. The most common mechanisms for resolving a dispute remained internal to the board (see Table 4). Therefore, as the table suggests, it is important for board members to be trained in, maintain, and apply skills in mediation and negotiation — the most common methods of resolving disputes.

Table 4: Most Common Methods of Resolving Board Disputes

Through internal negotiation	61.2%*
Through mediation by a member of the board or management	25.2%
Through a decision made by an internal authority holder	19.7%
The issue is not resolved	15.6%
By avoiding the conflict and letting it pass	11.0%
Through court action/arbitration	3.1%
Through external mediation	2.3%
Through negotiation by way of external negotiators/advisers	2.3%

*Percentage of respondents describing this method of resolution as occurring frequently.

Extremely few respondents indicated a willingness to resort to court action (indeed, 79.7 percent said they never resolved their boardroom disputes in this way). We also found that the more internal the dispute is the more willing respondents are to resolve it: 58.5 percent of respondents were happy to resolve intra-board disputes most or all of

the time, compared to just 24.3 percent of respondents for disputes between the board and external stakeholders. Similarly, a majority of respondents (57.9 percent) felt confident resolving board-management disputes most or all of the time, and 31.6 percent felt confident resolving board-shareholder disputes.

³ Respondents could select multiple options in answering this question; so the responses total more than 100 percent.

When Disputes Cannot Be Resolved

A significant percentage (15.6 percent) of respondents reported that their boardroom disputes frequently are not resolved. And 67.2 percent said they have some experience of unresolved issues.

More strikingly, 29.6 percent of our survey respondents indicated that they had experienced a boardroom dispute that affected the survival of an organization they had been involved with. Of those who reported such disputes, 63.6 percent cited personal issues connected with the dispute as being a major factor in the organization's demise. (See some of their comments below.)

"There are many [issues], but they all boil down to personality crisis. Most of the people I have been on boards with feel overqualified and find it difficult to accept views of other members."

"In the first board meeting with a new board which was less friendly to him, [the CEO] quit and put several million dollars in his pocket."

". . .The chairman insisted on his idea of an IPO, and the organization collapsed."

"The current conflict over succession planning for the founder/chair/CEO of the NGO is threatening the survival of the organization. A pattern of conflict avoidance on the part of the chair/CEO, a stagnant flow of information, and the board's passivity make it hard to discuss next steps."

"Personal behavior and attitudes of directors. The CEO's abrasive style, with zero appetite for "changes," has pushed the company to a stage wherein the company is under attack from the stakeholders, including the creditors."

"In one board, there was a significant difference of opinion between the chairman-CEO and the board about the way he had treated relations with personnel. That might have paralyzed the company. The board obliged the CEO to quit."

"If we [the board members] are not going to act as per their instructions, our job security will be questionable. Generally speaking, we are hostages."

The Difficulty of Dealing with Personal Factors

Complicating factors in the way a dispute is presented frequently become as important as the subject matter of the dispute itself. These factors can make handling a dispute more difficult (see Table 5).

Table 5: Frequency and Difficulty of Complicating Factors

Which complicating factors do respondents encounter most frequently?	
Issues regarding handling the emotions of those involved in the dispute	29.4%*
Conflict of personal or family interests versus interests of the company	26.6%
Avoidance of the dispute/conflict from those affected	26.4%
Issues over status	25.3%
Issues over competing factions on the board	23.5%
What complicating factor do respondents find the most difficult to manage?	
Issues over competing factions on the board	52.5%
Issues regarding handling the emotions of those involved in the dispute	49.6%
Conflict of personal or family interests versus interests of the company	49.2%
Issues over status	41.2%
Avoidance of the dispute/conflict from those affected	37.8%

* Percentage of respondents describing the complicating factor as encountered “frequently” or “very frequently” and the dispute as “difficult” or “very difficult” to manage, respectively.

Our responding board members found that the personal issues listed in Table 5 were both difficult and frequent complicating factors in disputes. They indicated that the most difficult factor was “issues over competing factions on the boards,” with 52.5 percent describing it as “difficult” or “very difficult,” although it occurred less frequently.

In practice, the concept of “competing factions” is likely to involve the many different types of directors (independent, executive, non-executive), each type with its own particular interests. There may also be competing factions between management and the board.

In handling disputes arising from competing factions, it is important to deal sensitively with the people involved. It can be helpful to consider some of the methods mentioned below, in particular the “soft skills,” such as the ability to understand and work with the personalities of those involved.

This difficulty of competing factions is closely connected to the second-most difficult complicating factor: handling the emotions of those involved in the dispute. Nearly half (49.6 percent) of respondents found handling emotions to be difficult. And 29.4 percent said they encountered this issue in

board disputes, making it the most frequently encountered factor. Handling the emotions of those involved requires many of the same skills as dealing with competing factions; both entail recognizing the need and working with the affected parties rather than avoiding the issue.

Other complicating factors seen as both prevalent and difficult to deal with also reflect the challenge of working with the human side of the dispute. For example, handling “conflicts of personal/family interests versus interests of the company” was the second-most frequent complicating factor (with 26.6 percent reporting that it occurred frequently or very frequently) and the third-most difficult factor to deal (with 49.2 percent describing it as “difficult” or “very difficult”).

The third-most frequent (26.4 percent) factor was “avoidance of the dispute/conflict from those affected,” although it came in fifth in difficulty (37.8 percent). On its own, avoidance of a dispute is rarely an effective strategy and can be a crippling factor for a board that fails to tackle the conflict appropriately. Ignoring a problem rather than ameliorating it often just exacerbates it. (See the comment below.)

“In my experience the avoidance of the dispute is the biggest problem, especially in a company with a dominant shareholder and two minority shareholders, where the minority shareholders are suffering most from results of avoidance but are hardly part of the conflict management, as the conflict is played outside the board/board meetings”

The Training that Directors Want versus the Training Already Received

Given these trends, it is not a surprise that the training that board members now want is in how to deal with these personal issues and handle the human being behind the dispute. Overall, the most requested training was for the “ability to deal with different personalities” (74.8 percent described it as “very useful”), the “ability to give and receive constructive feedback” (73.0 percent described it as “very useful”), and the “ability to have difficult conversations” (70.1 percent described it as very useful). (See Table 6.)

Table 6: Skills Training that Board Members Want

Ability to deal with different personalities	74.8%*
Ability to give and receive constructive critical feedback	73.0%
Ability to have difficult conversations	70.1%
Communication skills	69.5%
Ability to chair an effective meeting	68.3%
Mediation skills	65.1%
Negotiation skills	64.0%
Ability to deal with volatile personalities	61.4%
Awareness of cultural issues	54.3%
Ability to manage politics outside the boardroom	52.0%

*Percentage describing skills training as “very useful.”

The following comments from our respondents reflect this need for increased training in tackling personal issues, such as emotional intelligence, diversity, and leadership.

“A greater awareness of the role that emotional intelligence plays in relationships and decision making would be helpful. Our chairman/CEO is all too willing to bury succession planning by reducing the number of board meetings held annually, creating impossibly long agendas, and dominating discussions. The board members admire and respect his work but are too timid and seem unable to help him see that if the NGO is to survive and his legacy remain intact, it is time to find a new leader.”

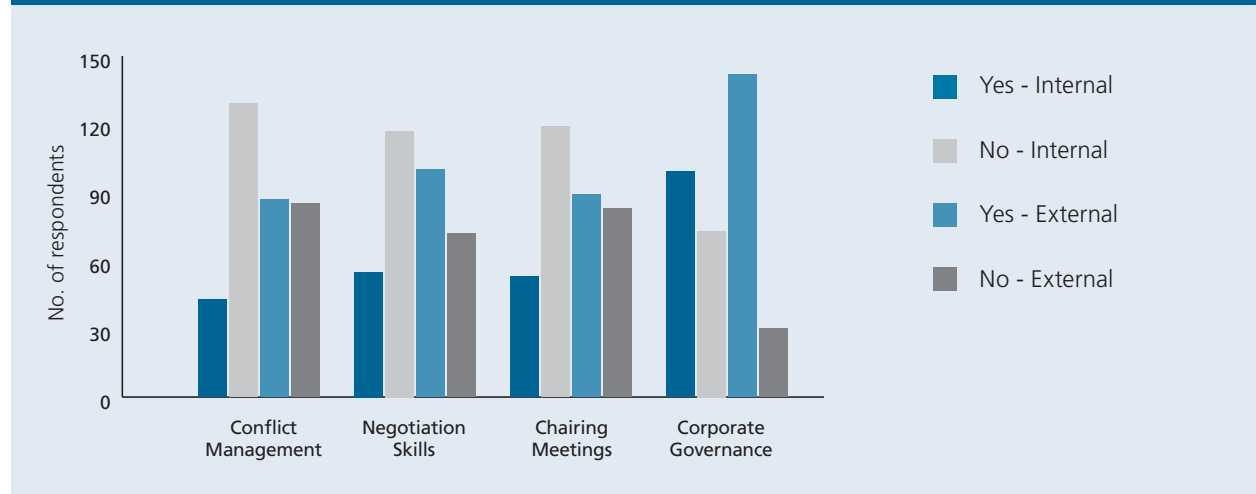
“I think that the greatest shortcoming of most boards on which I have served is an inexperienced chairman or chairwoman.”

“[The] board need to be sufficiently diverse in education, background, ethnicity, and gender to be able to tackle everything that the company might have to deal with. With diversity, which may overcome group think, will come more room for disagreement. That is OK. The trick is to keep disagreement from becoming a dispute.”

The respondents' focus on soft skills can be contrasted with the training they generally have already received (which is notably extensive). We found that, although the majority of respondents have not had internal training in conflict management, negotiation skills, or chairing meetings, the (slim) majority have had some form of external training in these skills (see Figure 4). The exception is training in

corporate governance, in which the majority have had training both internally (57.6 percent) and externally (82.6 percent). **These figures suggest potential for additional training in dealing with personal factors as well as in understanding broader board issues.**

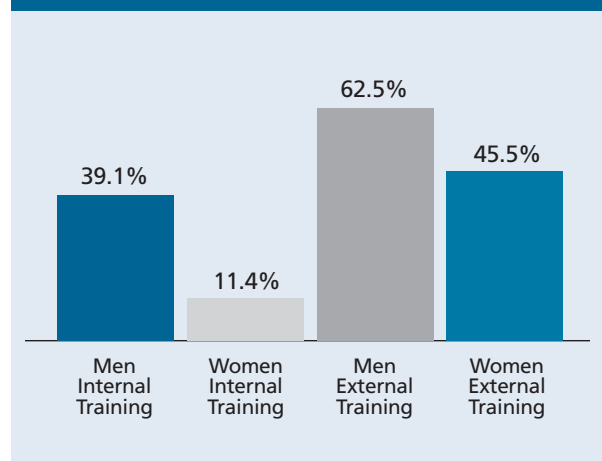
Figure 4: External and Internal Training Respondents Have Received



A Gender Difference?

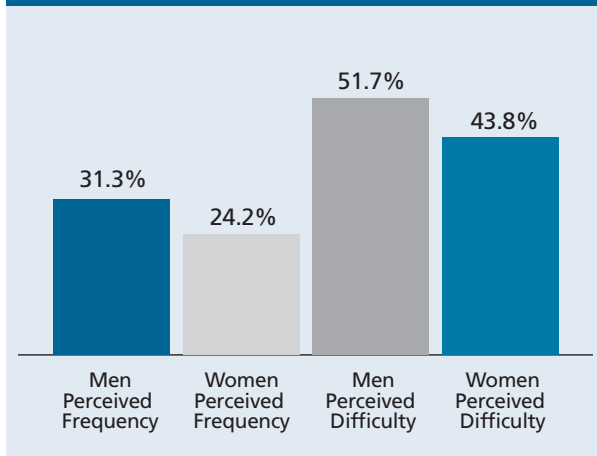
Notably, while training is comparable for men and women in the other skills, we found a gender difference in the amount of skills training that respondents have received in negotiation skills: for example, 39.1 percent of men have received internal training and 62.5 percent have received external training; but just 11.4 percent of women have received internal training and 45.5 percent have received external training. (See Figure 5 and Table 7 on page 11.)

Figure 5: Percentages of Men and of Women Trained in Negotiation Skills



There is also a notable difference between the answers of men and women regarding their perception of the level of difficulty of dealing with emotions. While both men and women considered handling the emotions of those involved in the dispute to be something that occurred frequently (31.3 percent of men had it as their most common complicating factor, and women saw it as the second-most common complicating factor, after avoidance of the issue), women considered the issue to be far less difficult to deal with than men did. (See Figure 6 on page 11.)

Figure 6: Gender Differences in Handling Emotions of Those Involved in Disputes



Only 43.8 percent of women considered emotions to be difficult or very difficult to deal with—less difficult than competing factions, conflicts of personal versus private issues, and avoidance. On the other hand, 51.7 percent of

men considered emotions to be difficult or very difficult to deal with, placing its difficulty level second only to dealing with competing factions.

This skills gap between men and women—regarding training in negotiation and handling emotions—is reflected in the distinction between the skills desired by men and women. For women, negotiation skills were the second-most commonly desired skill (with 71.0 percent describing the skills as very useful), just behind the ability to have difficult conversations (75.8 percent). But for men, it was only the eighth-most highly valued skill (61.7 percent). The skills they most desired training in were 1) the ability to deal with different personalities (76.6 percent); 2) the ability to give and receive constructive critical feedback (74.5 percent); and 3) communication skills (72.6 percent).

The importance of appreciating this gender difference is that a board may require different skills training depending on its gender diversity.

Table 7: Most Desired Skills Training, by Gender

Male Respondents

Ability to deal with different personalities	76.6%*
Ability to give and receive constructive critical feedback	74.5%
Communication skills	72.4%
Ability to chair an effective meeting	70.2%
Ability to have difficult conversations	68.1%
Mediation skills	67.0%
Ability to deal with volatile personalities	64.2%
Negotiation skills	61.7%
Awareness of cultural issues	56.8%
Ability to deal with politics outside the boardroom	49.5%

Female Respondents

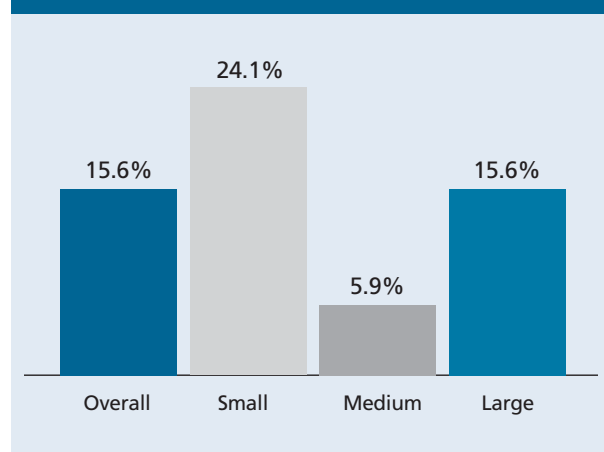
Ability to have difficult conversations	75.8%
Negotiation skills	71.0%
Ability to deal with different personalities	69.7%
Ability to give and receive constructive critical feedback	68.8%
Ability to chair an effective meeting	62.5%
Communication skills	60.6%
Mediation skills	59.4%
Ability to deal with politics outside the boardroom	59.4%
Ability to deal with volatile personalities	53.1%
Awareness of cultural issues	46.9%

*Percentages of respondents stating that the skills training would be very useful.

Impact of Enterprise Size on Resolving Conflict

We found that the size of an organization made a notable difference in the percentage of board disputes that were not resolved. Respondents from smaller companies were more likely to say that the issue was not resolved than were those from larger enterprises. Of those surveyed, 24.1 percent from smaller enterprises said that their issues were frequently not resolved, compared to just 5.9 percent from medium enterprises and 15.6 percent from large enterprises. (See Figure 7.) (It should also be noted that a significant number of respondents across all enterprises stated that there were never occasions when their issues were not resolved.)

Figure 7: Percentage of Issues Frequently Not Resolved at Board Level, based on the company size



Another marked difference was in the kind of issues respondents encountered as complicating factors in resolving the conflict within the board. Exactly half of those from small enterprises said they had encountered avoidance of the issue frequently or very frequently, compared to just 21.2 percent of respondents from medium enterprises and 19.1 percent of respondents from large enterprises. Also, 53.4 percent of small-

enterprise respondents saw dealing with the emotion of those involved in the dispute as frequent or very frequent (and 65.4 percent of them considered it to be difficult or very difficult to deal with), compared to 17.6 percent of medium-enterprise respondents and 25.8 percent of large-enterprise respondents. A possible reason for this difference might be that small and medium enterprises tend to have smaller boards, making group cohesion more important to the participants.

As an overall trend, we found little disparity in the amount of training that respondents received across the different sectors. However, there is a significant difference in the skills that people want across the different sizes of organizations. (See Table 8). While being able to deal with different personalities is valued across all sizes, smaller enterprises place more emphasis on negotiation skills and being able to deal with more extreme personality types. “The ability to deal with volatile personalities” is prized as a skill by these organizations more than with larger organizations. In medium enterprises, there is a desire for process skills, with “the ability to chair an effective meeting” being the most desired skill, while those from the largest enterprises have most need for general communication skills. This may well reflect the different needs of organizations as they expand and encounter different problems.

Table 8: Three Most Desired Skills Training — by Organization Size**Small Enterprise**

Most Desired	Ability to deal with different personalities	85.2%*
Second-Most Desired (tie)	Negotiation skills	77.8%
Second-Most Desired (tie)	Ability to deal with volatile personalities	77.8%

Medium Enterprise

Most Desired	Ability to chair an effective meeting	78.8%
Second-Most Desired	Ability to give and receive constructive feedback	75.8%
Third-Most Desired	Ability to deal with different personalities	69.7%

Large Enterprise

Most Desired	Ability to deal with different personalities	72.7%
Second-Most Desired	Ability to give and receive constructive feedback	72.3%
Third-Most Desired	Communication skills	71.6%

*Percentage describing skill as very useful.

Conclusion

Overall, the results show the prevalence of boardroom disputes and the damaging effects that unresolved disputes can have. Even those disputes that are resolved still have a significant impact on a business, because they waste management time and distract from core business priorities. Further, we found that the majority of disputes are resolved by internal methods of negotiation and mediation, rather than through court action. Therefore, it is important for board members to be capable of resolving disputes themselves and thus they should continue to be trained in the skills needed to do so.

However, we discovered that respondents find some disputes more difficult to resolve, and the most complicated to resolve are those that involve human factors such as competing factions and emotions. Our survey uncovered a skills gap in training for these types of issues, and we learned that the vast majority of respondents would appreciate more training in these soft skills. Training in how to handle different personalities and emotions (as well as increased training in negotiation and mediation skills) would equip boards to tackle disputes that are frequently extremely difficult because of board members' reluctance to address these human factors.

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