MEDIATION AS AN ALTERNATIVE MEANS TO THE BUSINESS DISPUTE RESOLUTION

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Received 6 March 2022; accepted 28 March 2022

Abstracts. In business, disputes often arise over contractual relationships when contractual obligations are not properly fulfilled. The potential risk of disputes must always be assessed. Timing and adherence to agreed deadlines are very important in business, as any delay can cause significant damage, and the legal entity can suffer significant losses. In a dispute between business partners, people tend to go to the court and fight there to the fullest rather than reach an amicable settlement, but there is always a winning and losing party in a litigation. From a long-term perspective, it will be impossible for the disputing parties to work together in the future, and the losing party will always feel great resentment towards the winner. Therefore, litigation is not always an attractive option and in this case mediation is a great way to resolve business disputes due to its expediency. Mediation is a dynamic, structured, interactive process which is focused on the needs, rights, and interests of the parties. It also helps to find the optimal solution and encourages open communication. This article presents the possibilities and perspectives of the application of mediation in Lithuania by reviewing global practice.

Keywords: business mediation, alternative dispute resolution method, possibilities, perspectives, global practice.

JEL Classification: K00, K4, K12, K39, K49.

Introduction

Good time planning, productivity, low costs, and profits are important for both small and large businesses. In the business environment, changes are constantly taking place, and contacts with partners and customers are being established and maintained — unfortunately, in these relations, it is inevitable for the disputes that are bound to reach the courts to arise. And in business, they need to be addressed in the most efficient way.

Judicial mediation is increasingly used in Lithuania, a procedure in which parties seeking a solution to a conflict, with the help of a competent mediator, reach a compromise at a lower cost of time and money. Experts note that, due to its effectiveness, this practice is increasingly used in disputes between legal persons or property rights.

An agreement on mediation can only be concluded if all parties to the business dispute have agreed to settle their disputes through mediation. It is important to note that the consent of the parties should be expressed independently and notwithstanding of the will of other legal or natural persons and other factors that may create a defect in the consent.

The parties should be expressed independently and notwithstanding of the will of other legal or natural persons and other factors that may create a defect in the consent. A fundamental criterion for the autonomy of the parties is the universally recognised principle of freedom of contract, according to which the parties of a business dispute have the right to freely conclude a mediation agreement.

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Lithuanian law sources contain a number of publications dedicated to the analysis of mediation as an alternative dispute resolution method. Kaminskienė’s monograph (Kaminskienė, 2013) examines mediation as an
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out-of-court and judicial procedure, as well as the main features of alternative civil dispute resolution, which in general do not differ from the principles of the business dispute mediation process.

In the Dispute Resolution Journal’s of the American Arbitration Association article, Johnson examined the conditions for effective business dispute mediation. Some of them include the mediators strive and ability to identify the needs and concerns of each party as well as having an understanding of not only mediation procedures but also the ability to gain insight into the particular businesses and the personalities of the parties (Johnson, 2011). Stipanowich examined why business needs mediation and noted in his research that businesses use mediation more often than other alternative dispute resolution methods to resolve disputes arising from business legal relationships (Stipanowich, 2004).

1. Types and nature of the business disputes

Business disputes can be divided into several distinct categories based on their characteristics:
- Partnership disputes. Such disputes can involve disagreements between shareholders or directors on matters ranging from business strategy planning to various breaches of terms and duties.
- Intellectual property and patent disputes. For instance, violation of Copyrights and Patents.
- Contractual disputes. Disagreements can range from a dispute arising due to contradictory or unclear requirements to arguments due to a failure to pay for goods and services.
- Employment disputes. Examples could include violation of employment contracts, unsafe working conditions, and discrimination at the workplace (Fortune Law, 2020; Gaslowitz Frankel LLC, n.d.; Jacoby, 2020).

The most prevalent of all the business disputes in the world in 2020 according to 2020 Annual Litigation Trends Survey conducted by Norton Rose Fullbright were contractual disputes which made up 53% percent of all the disputes. Second to that came in litigations arising due to disagreements about the employment which took up the portion of 39% and third place was taken by disputes regarding personal injuries.

Lithuanian court information system shows that the most prevalent causes for business disputes in Lithuania are the contractor encountering the possibility of additional costs, misjudgement of another party’s expectations, unfair terms of the contract, inability of the parties to solve problems together, failure of the parties to communicate clearly and effectively.

2. Business mediation

2.1. Key features of business mediation

Mediation can be defined as a settlement process which enlists a neutral third party, a mediator, as a help to guide it, and aids two or more interacting parties in dispute resolution (Wall et al., 2001; Menkel-Meadow, 2001).

Mediation has to be:
- Confidential and Private. Without a prior permission no information given to a mediator in confidence by any of the disputing parties can be disclosed to other parties. Also, all the information as well as the agreement concerning mediation in no case can be made public and has to maintain its confidentiality.
- Voluntary. No party can be forced to enter this dispute resolution process. Both entry and exit must be of each party’s own free will. Moreover, parties are allowed to select mediation rules and procedures as well as the mediator itself.
- Not legally binding. The violation of the agreement reached at the end of mediation process cannot lead to any criminal offenses.
- Needs-based. Mediation has to both recognize and address the interests, needs, and viewpoints of all parties.
- Non-evaluative. Mediator has to have a facilitative approach i.e., in order to reach an agreement which will be satisfactory to every party they have to be assisted in the problem recognition in the disputes as well as negotiation and communication. In no case can a mediator conduct an interrogation, investiga-
tion of the case, or in any way express his opinions and views and state his judgment.

- Impartial. Mediator has to remain neutral throughout the whole mediation process.

- Well-defined. Mediation process has to have a clear structure consisting of planning, mediator’s and disputing parties’ opening statements, discussions, negotiations and a closing stage (O’Neill, 2019; Program on Negotiation, Harvard Law School, 2016). All parties prior to the start of mediation must get acquainted with this process.

Mediation process in Lithuania has several key differences as compared to the process employed in Lithuanian courts as shown in Figure 1.

2.2. Development of business mediation

Mediation and arbitration have their own traditions in different regions. It is also important to know them when attempting to create a mediation-arbitration model.

The mediation itself in some countries have been used for over a millennium. One of those countries is China. In ancient China mediation was the main instrument in resolving disputes. According to Confucianism the superior way of resolving arguments is through moral persuasion and agreement and not through sovereign coercion. Mediation is not forgotten in People’s Republic of China where People’s Conciliation Committees help to reach an agreement between parties in various disputes (Folberg, 1983).

Another influential player in the global market, US, has a more recent history with mediation practices. The practice only started to significantly grow in popularity in 1960. Before that, mediators weren’t part of any professional mediation organisations since none existed and mostly self-regulated. In the seventies the mediation regulations started to emerge and the Society of Professionals in Dispute Resolution (SPIDR) as well as American Bar Association’s Special Committee on the Resolution of Minor Disputes (which later became the Standing Committee on Dispute Resolution) were formed. Today mediation is provided by large private organizations, court systems, and a vast number of private providers (Birke & Teitz, 2002).

Finally, the European Union is one of the most influential players in the global market. Its distinctive feature is a huge number of different countries with their distinct traditions and practises as well as national laws which are unique to each country. This can be observed through the legal regulation and application of mediation in different EU Member States. Mediation is regulated very differently in each of the European countries. Britain is one of the most advanced countries in Europe in terms of mediation and peaceful dispute resolution. In 1999, in the UK, it was ruled that the courts should be approached as a last resort and, unless the case is special, the disputing parties must first and foremost seek an out-of-court settlement. In Germany, Article 15a of the Code of Civil Procedure (EGZPO) gives the right to federal lands to pass a law which will establish a mandatory precondition for going to a court, a demand to go to a state-recognized conciliation body in the case of minor property disputes, certain defamation, good neighbourliness, and co-ownership disputes before choosing a litigation process. Another European country, Italy, is interesting in its practice regarding ADR (Alternative Dispute Resolution) because it changed its mind about the mandatory nature of mediation. In 2009 it adopted a law transposing the European Directive on certain aspects of mediation in civil and commercial matters into national law and allowing the reform of the Italian civil justice system and the application of mediation in civil and commercial matters. In 2012, the Italian Constitutional Court ruled that the decree’s provision on compulsory mediation in most civil disputes was invalid.

The old EU Member States have an established legal framework and traditions. Meanwhile, the new EU member states do not have such deep-rooted practices. They face a major challenge while making the dispute resolution system properly flexible and acceptable. Lithuania is also a developing EU country, which is rapidly moving towards a market economy and, in the process of globalization, understands that the national judicial system is not always effective in resolving conflicts.

The European Code of Conduct for Mediators (http://ec.europa.eu), which governs the basic principles of mediation in the EU, does not explicitly enshrine the voluntary nature of mediation, but it sets out the principles by which mediators can voluntarily choose to commit themselves to their own responsibilities. The Law on Conciliation of Civil Disputes of the Republic of Lithuania considers mediation to be a voluntary process in which the parties may, but do not have to, participate.

Mediation in Lithuanian society is a novelty. Judicial mediation in Lithuania since 2005 is performed by a court-appointed court mediator included in the list of court mediators. If the dispute cannot be resolved through judicial mediation, the case returns to the judicial stage of the proceedings and the case is heard by another appointed judge i.e., not the one who acted as a court mediator. The model of judicial mediation since 2008 was replaced by a more common-law model of market-based judicial mediation, giving the parties more autonomy. Also, if the disputing parties decide so, such matters as construction business disputes can be addressed and resolved with the help of the mediators provided by the Vilnius Arbitration or Lithuanian Chamber of Architects (Parliament of the Republic of Lithuania, 1996).

It is hard to tell how many cases of mediation overall in Lithuania there were in the recent years and decades. The LITEKO information system does not store data on cases referred to judicial mediation. After reviewing the data from 2008–2009 it was found that during that period, only 6 cases were transferred to judicial mediation in the Vilnius City District Courts. All six cases referred
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2.3. Pros and cons of business mediation

Mediation is progressively becoming a more and more attractive tool to resolve disputes in businesses. It is not peculiar if you consider several reasons contributing to its appeal:

- Maintenance of good relations. Mediation, contrary to more traditional means of conflict resolution, does not strive to find and punish the guilty party. Contrary, it is based on communication, negotiations, and the common goal to reach a mutually beneficial agreement. This stipulates sustenance of positive relations and enables disputing parties to be more willing to conduct business matters together in the future. In Lithuania, mediation is recommended when the dispute parties have relationships, which destroyed may have a significantly negative effect towards the future, in order to preserve them. Since litigation provides “all or nothing,” i.e., does not serve the interests of both parties, there is always a losing and winning party. There are neither winners nor losers in the mediation, so the dispute parties maintain good relations and can continue to cooperate.

- Savings of cost and time. The mediation process is much shorter than the litigation. In Lithuania mediation can last anywhere from 3 weeks to 3 months. However, it is considerably quicker than going to a court where a significant portion of cases can even last a couple of years. Mediation offers a shorter, cheaper, simpler, and more efficient way of resolving a dispute, which takes into account wider interests of the parties while concluding a mutually beneficial agreement that does not require coercion by the state. However, lawyers oppose the use of mediation, as the trial has three levels of courts to go through and solicitors’ fees depend on the length of the proceedings.

- Open and effective communication. Mediation facilitates openness in disputing parties while discussing their views and concerns. This effect is achieved even more successfully with the help of mediators since their existence as a middleman makes communication about the issues each party experiences more comfortable and likely. In Lithuania, mediators do not make decisions that are binding on the parties, they only moderate the process, make sure that the parties follow the established rules, do not go into conflicts with each other and focus on the object of the dispute. The role of mediators in the process is active (because mediators are lawyers), they make suggestions on how to resolve disputes, point out the strengths and weaknesses of the parties, and put the rights of the parties first rather than adhering to their individual interests.

- Focus on the needs of each party. As opposed to just focusing on the legal rights of each disputing party, mediation takes in account everyone’s business, commercial and psychological interests. Exactly this consideration of each party’s interests facilitated by mediation addresses businesses’ needs. In Lithuania, lawyers can become mediators after completing a special training, which lasts 32 hours. However, a mediator requires not only legal knowledge, but also psychological knowledge, as well as a certain level of diplomatic and empathetic qualities - the ability to persuade and understand. In Lithuania, a mediator is a lawyer with minimal psychological knowledge. Although the parties may speak in plain – not legal – language during mediation, and they do not need to formulate their positions in such a way that they would fit into certain legal norms – however not every mediator possesses the ability to understand parties’ arguments, wishes and expectations when they are not put into those legal norms.

- Confidentiality. Whereas the litigation process is public mediation makes sure that all information remains private during as well as after the mediation process. In Lithuania, the Rules of Judicial Mediation (Judicial Council, 2014) impose an obligation on the parties and the mediator to maintain the confidentiality of information obtained during negotiations concerning a dispute. Overall, this is an extremely relevant and import point to businesses whose future performance depends on a public image.

- Autonomy of the parties. Parties can freely decide on what rules and procedures will be adhered to during mediation, who will be the mediator as well as when to exit the mediation process. Parties can also choose whether they will be participating directly or informally in the dispute resolution. In Lithuania, mediation provides an opportunity for parties to create their own mediation procedures while being considerate of the changing circumstances. Mediation has the potential for a flexible process, unlike a court process that requires compliance with procedural requirements. The resolution of a dispute depends only on the will of the parties, giving them the opportunity to look at the dispute from different perspectives, expanding the range of alternatives to reconciliation. All of this leads to the higher likeliness of parties acting accordingly to the mutual agreement they have reached during the mediation process.

In Lithuania, decision-making freedom is granted to the parties to a dispute. In principle, the outcome of mediation depends on the participants of the conflict, who control the course of the mediation themselves, and after making a decision, they voluntarily undertake to carry it out (LR Law on Conciliatory Mediation, 2008). During
the court proceedings, the parties cannot have a significant influence on the course of the proceedings, and the decision is often unpredictable, with one party, and sometimes both parties, losing. The goal of mediation is to look to the future – to resolve the conflict peacefully while maintaining good relations, without looking for culprits, and to focus on finding a way to build relationships in the future. Mediation seeks to unite the parties to a dispute, emphasizing that the ultimate control of the process and outcome is their own.

- On the other hand, mediation can have an array of disadvantages that may deter businesses from even considering it when choosing the best way to settle a dispute. These are the main drawbacks of the mediation process:
  - No enforceable award. The nature of mediation's non-binding agreements may be a strong deterrent for the parties who consider their case to be strong. In Lithuania, the courts look at mediation very carefully, for fear of making mistakes, being criticized, and perhaps complicating their normal work. Judges have many questions, such as how will a mediated case be included in the workload assessment? Will the case be considered delayed or not? In order to make mediation more appealing following procedures were devised. At first when the settlement agreement is reached the parties will sign a "Without Prejudice Mediation Agreement". The mediator will be the witness of this signing. "Without Prejudice Mediation Agreement" is non-binding. Its purpose is to be reviewed by parties in order to search for weak points, shortcomings and other small corrections. After this review, the mediator and the parties will draw the "Mediation Agreement" which when signed by the disputing parties will become a legally binding contract.
  - Fear that compromises will be mandatory. Parties often choose against mediation because of the fear that they will be obliged to compromise. In actuality mediation process is entirely voluntary and a mediator does not have a power to force a settlement because his approach is facilitative. The only way to cure this misconception is by providing more education about mediation to the public at large and by creating a suitable accreditation system for mediators as well as encouraging their constants development as professionals and specialists of their field.
  - In Lithuania, the problem is that each of the parties to the dispute has its own goals and expectations, and businesses have to take a vast number of aspects into consideration such as directors, customers, supply chains, employers, and so on. A conflict may arise concerning any of them and each of the parties to the dispute will say that the dispute was not caused by its unlawful actions and is the fault of the other party. Mediation does not provide an opportunity to involve other stakeholders in the process, unlike a court.

- The neutrality and impartiality of mediators may become disadvantageous. If one party is unable to negotiate effectively with the other party, mediators usually face a difficult choice between a commitment to help all parties and a desire to ensure that all can satisfy their interests fairly and effectively. Sometimes a party who is less successful in negotiation consults a lawyer outside mediation sessions, this does not necessarily ensure that this party's interests are protected adequately if the other party is especially persistent in pressing for advantage and the mediator is unable to address this effectively (Lande & Herman, 2005).

- Additional costs if the conflict is not resolved. In a case where the agreement is not reached even after multiple sessions of mediation parties may need to go to court. If this were to happen parties would have to not only cover the mediation expenses but also those concerning legislation process (Radulescu, 2012).

- The public sector will more often than not choose against mediation. The officials of the public sector are often reluctant to be held accountable for the settlement which will be reached. Also, they often do not have enough authority in order to agree on the full settlement of the dispute.

- In Lithuania, mediation is a rarely applied innovation. The public is reluctant to try mediation because not enough attention has been paid to informing the public when setting up the institute. The public was informed only by individual reports on various websites aimed not only at the legal audience (Simaitis, 2007), as well as by leaflets distributed in the courts (Ministry of Justice of the Republic of Lithuania, 2010). Due to a lack of knowledge about the process of mediation, it often finds itself in the shadow of other dispute resolution tools – court or arbitration. The growth of the popularity of mediation in Lithuania requires public understanding and cooperation between science and business institutions.

Conclusions

Mediation as an alternative dispute resolution method is progressively growing in popularity and has become more and more widely spread in world in the recent decades. Even though it has been around for a really long time in some countries including Lithuania it wasn’t considered as a worthwhile alternative to courts until recently. It lacked regulation and definition of practices, and there was a shortage of organisations which could educate would be mediators. However, despite mediation becoming more widely recognised only recently, it has been noted that mediation has a large success rate in resolving business disputes.

In this article key features of business mediation such as it being confidential and private, voluntary, not legally
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binding, needs-based, non-evaluative, impartial, well-defined, have been brought into attention. The history of development of business mediation in various countries around the world including China, US and several European countries with an especial emphasis on Lithuania has been delved in. The pluses and minuses of business mediation as well as the ways of improvement have been drawn. In a nutshell business mediation helps maintain good relations, save both costs and time, encourage open and effective communication, focus on the needs of each party, maintain confidentiality, and promotes autonomy of the parties.

On the other hand, business mediation is not without its own drawbacks such as the lack of enforceable award, widely spread fear that compromises will be mandatory, and public sector more often than not choosing not to consider mediation. However, all of those concerns are solvable and will probably be eliminated in the nearest future.

The solutions could include but not be limited to by signing a binding agreement at the end of the mediation processes, educating public about mediation, creating a proper accreditation system for mediators, encouraging mediators to constantly develop and educate themselves about this dispute settlement process and also encouraging government officials to choose mediation even though it will be possible to reach only a partial settlement.

References


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