

Arbitration is a form of alternative dispute resolution (ADR) where parties involved in a conflict agree to have their case evaluated by a neutral third party (an arbitrator) outside of traditional courts. The arbitrator makes a legally binding decision, known as an "award," which both sides must follow.

To better understand how arbitration functions, consider the following key aspects of the process:

How It Works

- **Selection of Arbitrator:** Parties select a neutral arbitrator or a panel of arbitrators, often choosing individuals with specific subject-matter expertise (e.g., labor law, finance, or construction).
- **Hearings:** The process operates similarly to a scaled-down trial. Both sides present opening statements, submit evidence, call witnesses, and make closing arguments.
- **The Award:** The arbitrator reviews the information and issues a written, binding verdict. Once issued, it is extremely difficult to appeal the decision.

Arbitration vs. Litigation

While arbitration is an adversarial process similar to going to court, it differs in several critical ways:

- **Cost and Speed:** It is generally much faster and less expensive than traditional litigation because it avoids extensive court backlogs and complex procedural rules.
- **Privacy:** Hearings are conducted in private rather than open courtrooms, keeping business and personal details confidential.
- **Rules of Evidence:** Arbitrators have more flexibility and are typically not strictly bound by formal court rules of evidence.

Voluntary vs. Mandatory Arbitration

Arbitration can be entered into voluntarily, or it may be required by a contract:

- **Arbitration Clauses:** Many employment, consumer, and financial contracts contain pre-dispute "mandatory arbitration clauses". By signing these contracts, parties agree to waive their right to sue in a traditional court and will use arbitration to resolve any future disagreements.
- **Governing Bodies:** Many arbitrations are administered by organizations like the American Arbitration Association (AAA) or the Financial Industry Regulatory Authority (FINRA) for investment-related disputes.