



THE BUSINESS ETHICS FIELD GUIDE

Challenge 4: Conflict of Interest

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This series features 13 articles from Brad Agle, Aaron Miller and Bill O'Rourke, co-authors of The Business Ethics Field Guide. Each article focuses on a common work dilemma, while providing real life examples and insightful solutions. For more information, please refer to the cover story in the November/December 2018 issue.

Conflicts of interest are the most frequently encountered dilemma in the business world. The response often stated is, "That's just how business is done." While that might be true, it doesn't make it right. Only people with no interests are exempt from conflicts of interest, so it's important to realize that conflicts are inevitable. Additionally, it's also important to recognize when you have a conflict, then deal with it properly and swiftly.

What Qualifies as a Conflict of Interest?

Sometimes, even intelligent people don't recognize a conflict. For example, the Corporate Medical Director named Dan, an MD, reported to me. He returned from his honeymoon and told me about two physicians that came to his wedding and each physician brought him a gift of \$2,000. These doctors were friends of Dan, but they were also contracted medical consultants to our company, receiving approximately \$85,000 each per year.

I suggested to Dan that he had invited two suppliers to his wedding who each gave him a kickback. Dan insisted that the gifts were out of the goodness of their hearts. It took an hour of discussion for Dan to recognize the conflict and agree to return the money. A note on the wedding invitation would have avoided the problem: "Given our business relationship, gifts would be inappropriate. Hope to see you at the wedding."

A competing interest involving a personal benefit can be most tempting. A position of influence often comes with opportunities for inappropriate gain, but abusing power for your own benefit is the quickest way to ruin your reputation. For example, The Board of Directors of Enron suspended its conflict of interest rules to allow their CFO, Andrew Fastow, to establish and operate off-balance-sheet entities at a handsome profit. What were they thinking? Even though the Board and the company auditors said it was okay, we recognize that it was absolutely not okay. As a result, Mr. Fastow went to jail. From this example, we are reminded that Board directors cannot be rubber stamps for management. They must exercise independent judgment.

Questions to Consider When a Conflict is Recognized

Upon realizing that there is a conflict of interest at hand, what are the next steps? Try to focus on the following questions:

- **Are there clear rules?**

As an example, some organizations have clear rules that spouses cannot work in the same department. When that situation arises, transfers are made to meet the mutual needs of the organization and the employee. Another tricky area is dealing with friendships, which are usually good in business. Friendships build rapport, trust and loyalty. However, close relationships also increase the risk of favoritism, back-scratching and exclusion of others.

These potential dangers must be faced with openness, honesty and transparency. Gifting is another issue of noteworthy concern because it raises ethical issues. Most governments have a particularly clear rule about giving

13 ETHICAL DILEMMAS

Upcoming articles in this series will take a closer look at each dilemma.

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Someone in power is asking you to do something unethical.

2 MADE A PROMISE
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3 INTERVENTION
You see something wrong. How do you proceed?

4 CONFLICTS OF INTEREST
Multiple roles put you at cross purposes.

5 SUSPICIONS WITHOUT ENOUGH EVIDENCE
You believe something is going on, but you're not sure.

6 PLAYING DIRTY
Achieving justice but by doing something unethical.

7 SKIRTING THE RULES
Bending a rule for a better outcome.

8 DISSEMBLANCE
Misrepresenting the truth for better outcome.

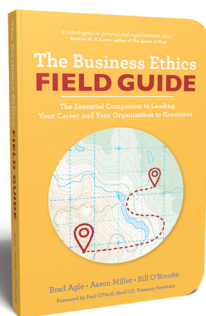
9 LOYALTY
Giving up ethical stance to protect valued relationship.

10 SACRIFICING PERSONAL VALUES
Living ethically might put burden on others.

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You could grant forgiveness, but you don't know if you should.



and receiving gifts: it's not allowed at all. Other companies have a less clear rule: employees cannot give or receive a gift exceeding nominal value. But then it becomes a matter of deciding what is nominal. This requires an open discussion among supervisors, employees, peers and perhaps suppliers or customers. In cases such as this, it's important to clarify the rules in the discussion. Usually, extravagant gifts are easily recognized and shouldn't be given or received.

A good rule with regard to any gift is that if it feels wrong or looks wrong, avoid it. Discussing conflict situations in advance can help to avoid them, especially in cultures where exchanging gifts is the norm. Doing so can prevent embarrassment and may actually be appreciated.

• Would your actions cause others to question your motives?

I observed the soon-to-retire President of a business move his corporate headquarters from the Northeast to Charlotte, NC. He explained that Charlotte had a globally connected airport and good weather for its employees. Coincidentally, he and his wife grew up in Charlotte, owned retirement property and had extended family in that area.

His true motives were indeed questioned. Prior to the decision, the President could have used relocation experts to conduct an objective analysis of the likely impact of the move to avoid the appearance of a subjective, selfish decision. You must prevent even the appearance of evil. This can be done through openness,

honesty, transparency and by using your moral imagination, which is the ability to think outside the box and envision ways to be ethical and successful.

• Who has the right to know the details and will disclosure cure the conflict?

When a conflict arises, transparency is usually appropriate. But who needs to know? The buyer of rubber commodities came to my office when I ran the Procurement Department. He said, "I have a conflict and you need to know about it." He told me his son landed a job with a supplier to our company. Furthermore, the son would be calling on him for business. He wanted me to be aware of the conflict and assured me that I could trust him to handle business with his son above board and objectively.

Was this disclosure good? Yes! Did it resolve the conflict? No! Our company was large enough that I could give this buyer a different responsibility and assign another procurement employee to purchase rubber. Disclosure is always good, but it doesn't always cure the conflict.

• Can you remove yourself from the conflict?

It might be prudent for you to recuse yourself from a business transaction when you learn a relative or friend might be involved on the other side. Let others handle the dealings to escape a real conflict or even the optics of a potential conflict.

• Can you be freed from your obligation?

In many cases, a party might be willing – or even grateful – to free you from your obligation if you explain why it puts you in an ethically difficult situation.

• Is there a way to uphold both of your obligations?

By exercising moral imagination, it may be possible to resolve conflicts of interest and satisfy your obligations to both parties. Often, time is the issue and if a conflicted party can grant you more time to perform, both obligations can be met and sometimes with better outcomes.

Common Conflict of Interest Pitfalls

First, people often don't notice a conflict of interest. To avoid this pitfall, it's important to develop an ethics consciousness and become familiar with the ethics guidelines that govern your work behavior.

Second, it may be tempting to run or hide from a recognized conflict. However, it's important to realize that eventually these situations will become apparent to others and it's best to face them early rather than allow things to worsen.

Third, there's a tendency to believe that we can be objective even when our self-interest is in play. No matter how pure your intent, you can't outsmart the bias created by your own perceptions. Even if you could rise above the influences of a conflict, others would not believe you have done so.

Finally, though better to avoid them altogether, train yourself to recognize conflicts of interest and work through each openly, honestly and transparently. It will enhance your reputation for integrity as well as that of your organization. ★



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