

Conflict of Interest

A critical policy for all nonprofit organizations is a Conflict of Interest Policy, which defines the situations in which a conflict of interest must be noted and addressed, and the process in which the organization resolves the conflict of interest. Resolving conflicts of interest are important to ensure that board members are consistent with their duties of loyalty and care owed to the organization.

In the development of such a policy, it is important to make the distinction between a **certain conflict of interest** and the **perception of a conflict of interest**. While organizations must address the real conflicts, they must also manage the perceived conflicts to ensure their organization's credibility and integrity remain strong.

The following specific areas are helpful in the development of a conflict policy.

1. ***Disclosure of direct or indirect financial interest.*** Board members must disclose the interests in which they receive a direct or indirect financial benefit from their association with the organization. The direct connections are the more obvious, but indirect connections, when a board member may benefit from an intermediary or secondary connection, are also important to disclose. In the policy, board members should be given clear direction on how to disclose their conflict, the level of participation that is appropriate in any conflict decision, and the specific details of when a board member should or should not vote.
2. ***Disclosure of conflicting organizational interests.*** Some board members serve more than one organization, or may serve a primary organization and be its representative to another coalition group. In such circumstances, board members must disclose the conflicts they have due to their loyalties to another group. These conflicts are most common in the areas of funding, including confidential information about grantmaking groups, donors, and other organizational supporters. The policy should outline the procedure for disclosure and participation in decisions.
3. ***Anti-nepotism for board members.*** One of the most troublesome aspects of conflict of interest revolves around hiring persons related to board members. If the policy states that the hiring of a person related to a board member requires a vote of the board, it should also prohibit the board member from participating in the discussion or voting. If hiring is a staff decision, the policy should require disclosure of the anticipated hiring to the board and approval by the board (absent the involvement and vote of the related board member) before the hiring occurs.
4. ***Compensation for hiring board members.*** In some circumstances, organizations will be faced with the prospect of hiring a board member or a board member's employer,

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family member or related party. The conflict of interest policy must outline the policy for business transactions in these circumstances, and the procedures to be followed. These transactions are often open to the greatest scrutiny, so the organization might choose to prohibit certain transactions, or set up special procedures such as a bidding process.

It is very important to remember that the critical decision in this conflict of interest situation is “What is the best interest of the organization?” In some circumstances, the interest of the organization is best served by hiring a board member to complete a specific task. Managing the fairness of the procedure and the public perception of the decision may be the most important considerations.

5. ***Reimbursing board members for expenses.*** Separate from the decision to hire board members to fulfill specific tasks is the policy for reimbursing board members for expenses they incur on behalf of the organization. While such expenses are tax deductible, these reimbursements are totally appropriate so long as the expenses are approved in advance and managed by the person responsible for managing other organizational expenses (usually the executive director or treasurer).
6. ***Board members use of organizational property.*** The conflict of interest policy should also state that board members may not be granted special privileges for the use of the property owned or managed by the organization unless it is directly related to supporting the organization. For example, use of a facility for a personal gathering that is otherwise not available to the public is inappropriate. However, if the purpose of the gathering is to generate financial support for the organization, it may be warranted.
7. ***Gifts and gratuities for board members.*** The policy should specify the circumstances of board members accepting gifts or gratuities from individuals or corporations doing business or seeking to do business with the organization. Such gifts, if agreed upon by the board, should be restricted to gifts of nominal value, and must be disclosed immediately to the rest of the board.
8. ***Political activities of board members.*** Given the IRS restrictions on public charities participating in political activities, the organization is well-served to restrict board members from using the organization for political purposes. The conflict of interest policy can specifically prohibit the use of the nonprofit’s name, facilities and property for personal or partisan electoral activities.