

Conflict of Interest: What is it, why does it matter, and what should we do about it?

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What is COI?

Surprisingly few
have a clear
idea.

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Examples of COI

• Consider ABC Aeronautics...

- A Board member owns shares in a major producer of aluminum that routinely bids for contracts from ABC.
- A junior engineer in the IT department has a part-time consulting business that sells IT security services.
- A respected aeronautical engineering professor from a leading university, who also advises several government agencies on purchasing decisions, is paid a handsome fee to speak at an annual training event for ABC's sales force.
- A manager has to choose among several well-qualified subordinates for a promotion. One of whom happens to be her lover.

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Defining COI

"A situation in which a person has a private or personal interest sufficient to appear to influence the objective exercise of his or her official duties as, say, a public official, an employee, or a professional."*

Key issue:
jeopardizing
loyal service.

*MacDonald, C., McDonald, M. & Norman, W. 2002.
"Charitable Conflicts of Interest" *Journal of Business Ethics*, 39(1-2): 67-74.

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COI is Not an Accusation

- It is a situation.
- How you deal with it is key.

Being in a COI is like having the flu. It's not unethical. The ethical issues are in what you do with it!

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Since COI is Not an Accusation...

- ...personal integrity is not a solution.
- Nor is “trying to be objective.”

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Consider a father,
refereeing his
son's
soccer game...

“I do not know whether I would be harder on my son than an impartial referee would be, easier, or just the same.
What I do know is that ... I could not be as reliable as another, equally competent referee would be....
The same would be true even if I refereed a game in which my son did not play but I had a strong dislike for several players on one team.
Would I call more fouls against that team, fewer (because I was ‘bending over backwards to be fair’), or the same as a similarly qualified referee who did not share my dislike?
Again, I do not know.”*

*Michael Davis, “Introduction,” in Michael Davis and Andrew Stark, eds. *Conflict of Interest in the Professions*. (New York: Oxford University Press, 2001).

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Standard Advice

1. Avoid;
2. Disclose;
3. Remove from decision.

Sometimes 1 and 3 are impossible. So transparency (2) becomes essential.

Worries about reaction to (2).
1) Client?
2) Professional?

None of these solves the problem.
Sometimes settle for least-bad path.

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COI and Money

• What could jeopardize judgment?

- Money,
- ambition,
- prestige,
- love,
- sex,
- friendship,
- team spirit,
- envy....

A situation in which a person has a private or personal interest sufficient to appear to influence the objective exercise of his or her official duties...

“[T]he social ties between auditors and their clients may be more of a problem than their financial incentives....”

Moore, D.A., et al. “Auditor Independence, Conflict of Interest, and the Unconscious Intrusion of Bias.” Harvard Business School Working Paper #05-116 (2005).

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Conflict of Interest: A “New” Ethical Category

- No use of the term prior to the 1930s;
- First occurrence in a court decision, 1949;
- First appears in Random House Dictionary of the English Language in 1971;
- First in Black’s Law Dictionary in 1979.

Why?

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COI and Institutions

Modern society is dominated by institutions that rely on arm’s-length fiduciary and agency relationships.

Trust is essential for such relationships.

Conflict of interest corrodes trust.

Combating COI must be an institutional priority.

Organizational Solutions

- Good policies;
- A COI-ready organizational culture.

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Good COI Policies

- Readable;
- Up-to-date;
- Statement of scope;
- Definition of COI;
- Examples of COI;
- Procedures to follow;
- Additional sources of info/guidance.

See:
C. MacDonald and B.
Williams-Jones "Conflict of
Interest Policies at Canadian
Universities: Clarity and
Content," Journal of
Academic Ethics, Vol. 6, No. 1,
(18 March 2008), pp. 79-90.

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A Policy is Just Paper

- ...until interpreted & implemented by organizational culture.

"Culture trumps
strategy, every
time."

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Ethical Culture

What is an
organization's
culture?

"Culture is the social
glue that helps hold
the organization
together..."

...by providing
appropriate standards
for what [members]
should say and do."

• R. Sims, JBE, 1991.

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A COI-Ready Culture

- Openness;
- Ethics on the table;
- COI on the table;
 - "COI happens."
 - Foresee it, handle it, learn from it.

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Conclusions

- Key points:
 - COI is pervasive;
 - COI is not an accusation:
 - Not corruption or lack of integrity.
 - Good policies should help.
 - A COI-ready culture is even better.

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