

CONFLICTS OF INTEREST

Five Things You Should Know

1. **Most board members have conflicts of interest.**

Most board members have numerous professional and personal affiliations. In fact, many individuals are asked to join a board because of their affiliations. It is natural that some of these affiliations will cross paths with a member's board work, though often they are not problematic. Most conflicts fall somewhere between inconsequential and totally unacceptable or unethical.

2. **A good COI policy is meant as a guide to aid board members in fulfilling their duty of loyalty.**

The most effective way to prevent conflicts of interest from becoming problematic is to take a proactive approach to managing them. This involves creating an environment that promotes open communication, transparency, and accountability among board members and staff. Given the concern of today's public, the demands of funders and donors, and the interest of the IRS and state attorneys general, a written conflict-of-interest policy is a virtual requirement for almost all nonprofits today.

Under well-established principles of nonprofit corporation law, a board member must meet certain standards of conduct and attention in carrying out his or her responsibilities to the nonprofit served. One of these standards is the duty of loyalty and some states have statutes adopting some variation of this and other duties that would be used in court to determine whether a board member acted improperly. The duty of loyalty requires board members to make decisions that they believe are in the best interest of the organization, rather than in their own interests or the interests of a third party.

Without a conflict-of-interest policy, it is difficult to address disputable situations. The policy should describe the process for managing conflicts of interest. For example, board members should be expected to disclose potential conflicts of interests, identify any that may arise during board deliberations, recuse themselves from those deliberations, and refrain from any voting that may result from those deliberations.

3. **Your COI policy should serve your organization's particular environment and circumstances.**

For example, the IRS provides a sample policy for new organizations seeking recognition of tax-exempt status. More mature organizations usually require more detailed policies. A policy for a private foundation must address specific concerns of foundations, such as IRS self-dealing rules.



4. Board diversity is essential to preventing COIs.

When friends, business partners, and relatives serve together on a nonprofit board, it is generally more likely that conflicts of interest or questions of allegiance will arise and be more difficult to resolve. It is therefore essential for boards to have members who come from different backgrounds and have varying points of view.

5. Board members should disclose their conflicts annually.

A disclosure form allows board members to list all financial, professional, and other relevant affiliations that might affect their decision making during the coming year. If a board member has an affiliation that presents a major obstacle in fulfilling the duty of loyalty, it may be necessary for the board to evaluate his or her suitability to serve on the board at that time.

Questions for you and your board:

- When was the last time your board reviewed and perhaps revised its conflict-of-interest policy to ensure it addresses your organization’s particular environment and circumstances?
- Do all of your board members recognize conflicts of interest and understand the circumstances under which they can be legally problematic or can cause public relations issues?
- Do your board members understand how to manage their conflicts of interest?
- Does your board require its members to disclose on an annual basis their conflicts of interest?
- Is your board complying with its conflict-of-interest policy?

Additional resources:



[The Nonprofit Policy Sampler](#)



[Managing Conflicts of Interest: The Board’s Guide to Unbiased Decision Making](#)