

Conflict of Interest: What It Is and How to Avoid It

Conflict that generates suspicion and distrust can frustrate community efforts and must be avoided.

- Do you know how to identify conflict of interest?
- Are you prepared to resolve conflict-of-interest issues if they should arise?

The work environment of the Empowerment Zones (EZ), Enterprise Communities (EC) and Champion Communities (CC) opens them up to possible charges of conflict of interest. Local organizers, particularly community board members of these organizations, should focus on establishing a working environment that is open and inclusive, embracing fair play and encouraging participation by all segments of the community. If the community feels their work is motivated by nepotism and programs are not inclusive and that actions are driven by unfair personal gain, community-wide support for programs and projects will begin to deteriorate. In order to avoid problems that generate resentment from the citizens who are crucial for a viable community development program, EZ/EC/CC board members should establish a policy for identifying potential conflicts of interest or the appearance of conflicts of interest and procedures to ensure that these situations are avoided.

What Is Conflict of Interest?

Any activity or action is considered a conflict of interest when elected or designated EZ/EC/CC board members or officers have an interest -- or incur an obligation of any nature -- in a business, transaction, individual, or professional activity which could unduly interfere with the proper discharge of duties in the best interests of the employer, contractor or organization. In other words, conflict of interest exists when a board member or officer personally benefits, or is perceived to personally benefit, from an activity of the organization.

Examples of Potential Conflicts of Interest

1. Failure to disclose occurs when:
 - Income-generating activities are connected with, or affected by, the community's strategic plan;
 - A board member has financial interest in property the governing board may lease, buy or sell.
2. Failure to report occurs when:
 - A board member is in a position to influence directly or indirectly the organization's operations in ways that could lead to personal gain.
3. Favoring of interests for personal gain occurs when:
 - A board member recommends the hiring of a staff member or consultant who is a relative without first divulging the relationship to the governing board;
 - A board member is employed by an organization that receives funding or grants associated with the community's strategic plan.
4. Inappropriate use of information occurs when:
 - A board member uses for personal gain, or other unauthorized purposes, privileged information acquired as a result of his or her position or involvement with community development activities. Such information might include knowledge of forthcoming developments, future purchases, etc.;
 - Board members delay the dissemination of project information, or prematurely announcement of information for personal gain.
5. Employment and evaluative relationships occur when:
 - A board member participates in the selection, employment, supervision, instruction, or evaluation of a person with whom the individual is related, or has business or other financial ties, without disclosing the relationship to the governing board.

Ways to Resolve and Avoid Conflicts of Interest

The organization's bylaws should clearly state that conflicts of interest, or even the appearance of conflicts of interest, are strictly prohibited and will result in the immediate suspension of the board member involved. The existence or mere appearance of conflicts of interest, real or potential, can span a wide spectrum from minor and inconsequential to those that have serious consequences. Regardless of the degree of seriousness, all conflict-of-interest issues should be addressed and resolved swiftly. The very best way to accomplish this is to ensure that effective organizational standards and procedures are in place to prevent conflicts of interest.

- Develop a clear set of bylaws that address issues pertaining to conflict of interest, disclosure requirements, allowable involvement of outside interests and procedures for dealing with these issues when they emerge. Consider adding language to address financial and other issues that may generate conflict or disputes; e.g., external activities of board members sometimes demand so much time or attention that they interfere with the individual's responsibilities to the organization.
- Conduct open meetings and encourage board members and the general public to review all activities and records of the EZ/EC/CC governing body.
- Ensure that a board member does not participate in the selection of a relative for a position he or she is likely to supervise. If the relative is selected for employment despite the board member's non-vote, the governing board must develop an alternate evaluation process for the employee so that board member is not the supervisor, instructor or lone evaluator of the employee's performance.
- Regularly communicate the operating principles, values and vision of your organization at meetings through newsletters, newspapers or other media.
- Form a committee on conflicts of interest appointed by the chair of the board to oversee the periodically distribution to all staff and board

members of a uniform disclosure form that addresses conflict-of-interest situations.

- Establish a list of ethical and legal obligations to assure that board members conduct themselves and the organization in accordance with the highest standards of integrity.
- Conflict of interest is best avoided or resolved through the use of good bylaws, policies, procedure and judgment or discretion.
- Disclose pertinent information pertaining to all staff members regarding their own external commitments and interests.
- Take appropriate action to avoid creating actual or potential conflicts of interest.
- Honor the bylaws as they relate to operating policies and financial and audit requirements

Benefits of Avoiding Actual or Apparent Conflicts of Interest

- Assures the community that the business of the EZ/EC/CC organization is ethical and based on objective determinations to advance the goals of the total community;
- Demonstrates that accountability will be achieved within the organization;
- Demonstrates a willingness to use resources wisely; and
- Provides an increased level of trust from state, county, public and private organizations.

Internet Resources:

<http://www.research.cornell.edu/CRF/Policies/Conflicts.html>

Additional copies of this Technote are available from the Office of Community Development, U.S. Department of Agriculture, Rural Development, Room 701, 300 7th Street, S.W., Washington, DC 20024 (1-800-645-4712). Copies may also be obtained at

<http://www.rurdev.usda.gov/ocd>

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